

AUDITOR/CONTROLLER-RECORDER COUNTY CLERK



COUNTY OF SAN BERNARDINO

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LARRY WALKER
Auditor/Controller-Recorder
County Clerk

ELIZABETH A. STARBUCK
Assistant Auditor/Controller-Recorder
Assistant County Clerk

January 15, 2004

BOARD OF SUPERVISORS

County Government Center
385 North Arrowhead Avenue, Fifth Floor
San Bernardino CA 92415-0110

Enclosed are copies of the audit reports prepared by the Internal Audits Section and Outside Audit Agencies for the quarter ending December 31, 2003.

Respectfully submitted,

Larry Walker
AUDITOR/CONTROLLER-RECORDER

By: _____
Howard M. Ochi
Chief Deputy Auditor

LDW:HO:dlp

Attachments (5)



AUDIT REPORTS

**PREPARED BY INTERNAL AUDITS SECTION
AND OUTSIDE AUDIT AGENCIES**

FOR THE QUARTER ENDING

DECEMBER 31, 2003

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Office of

AUDITOR/CONTROLLER-RECORDER

DEPARTMENTS

SPECIAL DISTRICTS

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COUNTY OF SAN BERNARDINO
CALIFORNIA
SPECIAL DISTRICTS
AUDIT REPORT
COUNTY SERVICE AREA No. 70
ZONE R – 41
OAK HILLS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

Prepared by:

Internal Audits Section
Office of the Auditor/Controller-Recorder
September 16, 2003

AUDITOR/CONTROLLER-RECORDER COUNTY CLERK



COUNTY OF SAN BERNARDINO

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LARRY WALKER
Auditor/Controller-Recorder
County Clerk

ELIZABETH A. STARBUCK
Assistant Auditor/Controller-Recorder
Assistant County Clerk

Independent Auditor's Report

September 19, 2003

Tom Sutton, Interim Director
Office of Special Districts
157 West Fifth Street, Second Floor
San Bernardino, CA 92415-0450

**SUBJECT: AUDIT OF SAN BERNARDINO COUNTY SERVICE AREA NO. 70
ZONE R – 41, OAK HILLS FOR THE FISCAL YEAR ENDED
JUNE 30, 2003**

Introductory Remarks

In compliance with Section 26909 of the California Government Code, we have completed an audit of the County Service Area No. 70, Zone R – 41 for the fiscal year ended June 30, 2003.

Auditor's Report

We have audited the accompanying financial statements of the governmental activities and the remaining aggregate information of the County of San Bernardino's County Service Area No. 70 Zone R – 41, (CSA) a component unit of the County of San Bernardino, California, as of and for the year ended June 30, 2003, which collectively comprise the CSA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the CSA's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the minimum audit requirements and reporting guidelines for California Special Districts required by the Office of the State Controller. Those standards require that we plan and perform the audit to obtain reasonable assurance

**County of San Bernardino Special Districts
CSA 70 Zone R – 41 Oak Hills**

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about whether the financial statements are free from material misstatement. An audit includes examining, on test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as, evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Independent Auditor's Report

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and the remaining aggregate fund information of the County of San Bernardino CSA 70 Zone R - 41 as of June 30, 2003, and the respective changes in financial position for the year ended in conformity with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and the state regulations governing Special Districts.

The accompanying budgetary comparison information on page 14 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The County of San Bernardino's CSA 70 Zone R - 41 has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Larry Walker
Auditor/Controller-Recorder

Quarterly - Copies to:
County Administrative Office
Board of Supervisors
Grand Jury (2)

By:  **Barbara K. Redding, CPA, CGFM**
Internal Audits Manager

Audit File (3)

LDW:BKR:SMS:spr.2

Date Report Distributed: 11/6/03

County of San Bernardino
County Service Area No. 70 Zone 41 Oak Hills
Statement of Net Assets
June 30, 2003

ASSETS

Cash and cash equivalents	\$	2,892
Interest receivable		24
Total Assets	\$	<u>2,916</u>

LIABILITIES

Liabilities	\$	<u>-</u>
-------------	----	----------

NET ASSETS

Unrestricted		<u>2,916</u>
Total Net Assets	\$	<u>2,916</u>
Total Liability and Net Assets	\$	<u>2,916</u>

The accompanying notes are an integral part of these financial statements.

County of San Bernardino
County Service Area No. 70 Zone 41 Oak Hills
Statement of Activities
For the Year Ended June 30, 2003

EXPENSES

Services and supplies	\$ 2,438
Depreciation	-
Total Program Expenses	<u>2,438</u>

PROGRAM REVENUES

Special assessment	746
Other Services	4,500
Interest	<u>108</u>
Net Program Revenue (Expense)	<u>5,354</u>

Change in Net Assets	2,916
Net Assets - beginning	<u>-</u>
Net Assets - ending	<u>\$ 2,916</u>

The accompanying notes are an integral part of these financial statements.

County of San Bernardino
County Service Area No. 70 Zone 41 Oak Hills
Balance Sheet
Governmental Fund
June 30, 2003

	Road (RGY)
ASSETS	
Cash and cash equivalents	\$ 2,892
Interest receivable	24
Total Assets	<u>\$ 2,916</u>
 LIABILITIES AND FUND BALANCES	
Liabilities	<u>\$ -</u>
Fund Balances:	
Unreserved	2,916
Total Fund Balances	<u>- 2,916</u>
Total Liabilities and Fund Balances	<u>\$ 2,916</u>

The accompanying notes are an integral part of these financial statements.

County of San Bernardino
County Service Area No. 70 Zone 41 Oak Hills
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Fund
For the Year Ended June 30, 2003

Special assessments	\$ 746
Other services	4,500
Interest	108
Total Revenue	<u>5,354</u>
EXPENDITURES	
Services and Supplies	<u>2,438</u>
Total Expenditures	<u>2,438</u>
Excess of Revenues over Expenditures	2,916
Fund Balance - Beginning	-
Fund Balance - Ending	<u>\$ 2,916</u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts
County Service Area No. 70 Zone R-41 Oak Hills
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

The County Service Area No. 70 – Zone R-41- Oak Hills (the CSA) – is a special district located within the County of San Bernardino. The CSA has governmental powers as established by the San Bernardino County Government Charter (the County). The County was established in 1852 as a legal subdivision of the State of California.

The CSA was established by an act of the Board of Supervisors of the County of San Bernardino on January 29, 2002 with the active powers of maintaining and constructing road improvements. Currently, the governmental reporting entity provides road maintenance for 1.3 miles of roadway and eleven streetlights in the Oak Hills area. Financing is provided by special assessment of \$166 on each parcel of land within the service area. The CSA is responsible for the streetlight's energy bills.

The CSA is a component unit of the County. Component units are legally separate organizations for which the Board is financially accountable or other organizations whose nature and significant relationship with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. Financial accountability is defined as the appointment of a voting majority of the component unit's board, and either (i) the County has the ability to impose its will on the organization, or (ii) there is potential for the organization to provide a financial benefit to or impose a financial burden on the County.

The accompanying financial statements reflect only the accounts of County Service Area No. 70 Zone R-41 and are not intended to present the financial position of the County taken as a whole.

Government-wide and fund financial statements

The government-wide financial statements (i.e. the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the reporting entity. As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

**County of San Bernardino Special Districts
County Service Area No. 70 Zone R-41 Oak Hills
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

Government-wide and fund financial statements

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Separate financial statements are provided for governmental funds, proprietary and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Currently, the CSA does not have any proprietary or fiduciary fund types. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing or related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. However, for revenue derived from voluntary non-exchange transactions, such as taxes and federal and state grants, the County expanded its definition of "available" to 9 months. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

**County of San Bernardino Special Districts
County Service Area No. 70 Zone R-41 Oak Hills
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

Measurement focus, basis of accounting, and financial statement presentation

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The government's primary operating fund is a special revenue fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The fund provides road maintenance services for the Oak Hill area.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Deposits and investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

**County of San Bernardino Special Districts
County Service Area No. 70 Zone R-41 Oak Hills
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property taxes

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Stewardship, compliance and accountability

A. Budgetary information

In accordance with provisions of Section 29000 - 29143 of the Government code of the State of California, commonly known as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for capital assets within each fund.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the Special District's Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

**County of San Bernardino Special Districts
County Service Area No. 70 Zone R-41 Oak Hills
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

B. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent year.

NOTE 2: CASH AND CASH EQUIVALENTS

Cash and Cash Equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and Cash Equivalents are shown at the fair value as of June 30, 2003.

NOTE 3: SELF INSURANCE

The District participates in a Public Entity Risk Pool sponsored by the County of San Bernardino (County). The District did not incur any insurance cost or annual premiums for the year ended June 30, 2003.

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and workers' compensation claims. Public liability claims are self-insured for up to \$250,000 per occurrence. Excess insurance coverage up to \$30 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II.

Workers' compensation claims are self-insured up to \$1 million per occurrence and covered by an independent carrier for the balance up to \$2 million for employer's liability and for workers' compensation statutory liability. Property damage claims are self-insured on an occurrence basis up to \$25,000 and insured by the CSAC EIA Property Programs I and II.

**County of San Bernardino Special Districts
County Service Area No. 70 Zone R-41 Oak Hills
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 3: SELF INSURANCE (Continued)

The County supplements its self-insurance for medical malpractice claims with an insurance policy that provides annual coverage on an occurrence basis with deductibles of \$1,000,000 for each claim and \$5,000,000 for total annual claims. Maximum coverage under the policy is \$20 million per occurrence with an additional \$30 million in limits provided by the CSAC EIA General Liability II Program.

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance and employee dental insurance, which are accounted for in the General Fund. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies and include amounts for claims incurred but not reported and allocated loss adjustment expense. The liabilities for these claims are reported using a discounted rate of 5.00%.

The County has an investment agreement with National Westminster Bank to finance the self-insured general liability, automobile liability, workers' compensation and medical malpractice programs. Quarterly disbursements are received by the County for fund reserves and payment of claims. The County's investment in the agreements totaled \$41,124,812 at June 30, 2003.

The claims liability of \$86,764,373 reported at June 30, 2003 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the claims liability amount in fiscal years 2002 and 2003 were:

Fiscal Year	Beginning of Fiscal Year Liability (in thousands)	Current-Year Claims and Changes in Estimates (in thousands)	Claims Payments (in thousands)	Balance at Fiscal Year-End (in thousands)
2002-2003	\$95,288	\$23,647	(\$32,171)	\$86,764
2001-2002	\$61,172	\$61,832	(\$27,716)	\$95,288

**County of San Bernardino Special Districts
County Service Area No. 70 Zone R-41 Oak Hills
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 4: NET ASSETS

Net assets represent the difference between assets and liabilities. The net asset amounts were as follows:

**Invested in Capital Assets, Net of
Related Debt:**

Net roadways	\$ -
Less: Loans Payable on roadways	<u>-</u>
	-
Unrestricted	<u>2,916</u>
Total Net Assets	<u><u>\$ 2,916</u></u>

NOTE 5: CONTINGENCIES

As of June 30, 2003, in the opinion of the CSA Administration, there are no outstanding matters, which would have a significant effect on the financial position of the CSA.

County of San Bernardino Special Districts
County Service Area No. 70 Zone R-41 Oak Hills
Budgetary Comparison Schedule-Special Revenue Fund (RGY)
For the Fiscal Year Ended June 30, 2003

SCHEDULE ONE

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	Budgetary Basis	Final Budget Positive(negative)
Budgetary fund balance July 1, 2002	\$ -	\$ -	\$ -	\$ -
Resources (inflows):				
Current Services	7,800	7,800	5,246	(2,554)
Use of money and property	50	50	108	58
Amounts available for appropriation	7,850	7,850	5,354	(2,496)
Charges to appropriations (outflows)				
Services and supplies	3,800	3,800	2,438	1,362
Reserves and Contingencies	4,050	4,050	0	4,050
Total charges to Appropriations	7,850	7,850	2,438	5,412
Budgetary Fund Balance, June 30, 2002	\$ -	\$ -	\$ 2,916	\$ 2,916

COUNTY OF SAN BERNARDINO
CALIFORNIA
SPECIAL DISTRICTS
AUDIT REPORT
FOREST FALLS FIRE PROTECTION DISTRICT
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

Prepared by:

Internal Audits Section
Office of the Auditor/Controller-Recorder
September 16, 2003

**County of San Bernardino Special Districts
Forest Falls Fire Protection District**

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AUDITOR/CONTROLLER-RECORDER COUNTY CLERK



COUNTY OF SAN BERNARDINO

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LARRY WALKER
Auditor/Controller-Recorder
County Clerk

ELIZABETH A. STARBUCK
Assistant Auditor/Controller-Recorder
Assistant County Clerk

Independent Auditor's Report

September 16, 2003

Peter Hills, Fire Chief/Fire Warden
County Fire Department
157 West Fifth Street, Second Floor
San Bernardino, CA 92415-0450

**SUBJECT: AUDIT OF FOREST FALLS FIRE PROTECTION DISTRICT FOR THE
FISCAL YEAR ENDED JUNE 30, 2003**

Introductory Remarks

In compliance with Section 26909 of the California Government Code, we have completed an audit of Forest Falls Fire Protection District for the fiscal year ended June 30, 2003.

Auditor's Report

We have audited the accompanying financial statements of the governmental activities of the County of San Bernardino Special Districts Forest Falls Fire Protection District, a component unit of the County of San Bernardino, California, as of and for the year ended June 30, 2003, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the minimum audit requirements and reporting guidelines for California Special Districts required by the Office of the State Controller. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial

statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the County of San Bernardino Special Districts Forest Falls Fire Protection District as of June 30, 2003, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and the state regulations governing Special Districts.

The accompanying budgetary comparison information on page 16 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The County of San Bernardino's Special District, Forest Falls Fire Protection District has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Larry Walker
Auditor/Controller-Recorder

Copies to:

County Administrative Office
Board of Supervisors
Grand Jury (2)

By:

Barbara K. Redding, CPA, CGFM
Internal Audits Manager

Audit File (3)
Date Report Distributed: 11/19/03

LDW:BKR:EL:dlp2

**County of San Bernardino
Forest Falls Fire Protection District
Statement of Net Assets
June 30, 2003**

	<u>Governmental Activities</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 69,316
Taxes receivable	8,473
Interest receivable	<u>384</u>
Total current assets	<u>78,173</u>
Noncurrent assets:	
Capital assets:	
Land	2,000
Improvements to land	18,951
Equipment and vehicles	454,252
Less accumulated depreciation	<u>(370,567)</u>
Total noncurrent assets	<u>104,636</u>
Total assets	<u><u>\$ 182,809</u></u>
LIABILITIES	
Current liabilities:	
Salaries and benefits payable	1,660
Accounts payable	<u>69</u>
Total current liabilities	<u>\$ 1,729</u>
Noncurrent liabilities:	<u>-</u>
Total liabilities	<u><u>\$ 1,729</u></u>
NET ASSETS	
Invested in capital assets	104,636
Unrestricted	<u>76,444</u>
Total net assets	<u>181,080</u>
Total liabilities and net assets	<u><u>\$ 182,809</u></u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino
Forest Falls Fire Protection District
Statement of Activities
For the Fiscal Year Ended June 30, 2003**

	<u>Governmental Activities</u>
EXPENSES	
Salaries and benefits	\$ 53,570
Services and supplies	77,431
Structures and improvements	16,390
Depreciation expense	<u>18,983</u>
Total expenses	<u>166,374</u>
PROGRAM REVENUES	<u>-</u>
Net program (expense) revenue	<u>(166,374)</u>
GENERAL REVENUES	
Property taxes	152,506
Interest	<u>1,640</u>
Total general revenues	<u>154,146</u>
Change in net assets	(12,228)
Net assets - beginning	<u>193,308</u>
Net assets - ending	<u>\$ 181,080</u>

The accompanying notes are an integral part of these financial statements.

County of San Bernardino
Forest Falls Fire Protection District
Balance Sheet
Governmental Funds
June 30, 2003

	Special Revenue Fire Protection
ASSETS	
Cash and cash equivalents	\$ 69,316
Taxes receivable	8,473
Interest receivable	384
Total assets	<u>\$ 78,173</u>
LIABILITIES AND FUND BALANCES	
Liabilities:	
Salaries and benefits payable	\$ 1,660
Accounts payable	69
Total liabilities	<u>\$ 1,729</u>
Fund balances:	
Unreserved	<u>\$ 76,444</u>
Total fund balances	<u>\$ 76,444</u>
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	<u>104,636</u>
Net assets of governmental activities	<u><u>\$181,080</u></u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino
Forest Falls Fire Protection District
Statement of Revenues, Expenditures, and Changes in Fund Balances
For the Fiscal Year Ended June 30, 2003**

	Special Revenue Fire Protection
REVENUES	
Property taxes	\$ 152,506
Interest	1,640
Total revenues	<u>154,146</u>
EXPENDITURES	
Salaries and benefits	53,570
Services and supplies	77,431
Structures and improvements	16,390
Total expenditures	<u>147,391</u>
Excess of revenues over (under) expenditures	6,755
OTHER FINANCING SOURCES (USES)	
Net change in fund balances	6,755
Fund balances - beginning	69,689
Fund balances - ending	<u>\$ 76,444</u>

**Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds
to the Statement of Activities**

Net change in fund balances – total governmental funds	\$ 6,755
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays in the current period.	<u>(18,983)</u>
Change in net assets of governmental activities	<u>\$ (12,228)</u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino
Forest Falls Fire Protection District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

Forest Falls Fire Protection District (the District) is a special district located within the County of San Bernardino. The District has governmental powers as established by the San Bernardino County Government Charter. The County of San Bernardino (the County) was established in 1852 as a legal subdivision of the State of California.

The District was established by an act of the Board of Supervisors of the County on January 24, 1955 with active powers of fire protection, rescue and emergency medical services to the community of Forest Falls.

The District is a component unit of the County. Component units are legally separate organizations for which the Board is financially accountable or other organizations whose nature and significant relationship with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. Financial accountability is defined as the appointment of a voting majority of the component unit's board, and either (i) the County has the ability to impose its will on the organization, or (ii) there is potential for the organization to provide a financial benefit to or impose a financial burden on the County.

The accompanying financial statements reflect only the accounts of the District and are not intended to present the financial position of the County taken as a whole.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the reporting entity. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from any *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

County of San Bernardino
Forest Falls Fire Protection District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Currently, the District does not have any proprietary or fiduciary fund types. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. However, for revenue derived from voluntary non-exchange transactions, such as taxes and federal and state grants, the County expanded its definition of "available" to 9 months. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The District utilizes a single special revenue fund labeled "Fire Protection". It accounts for all financial resources of the general government.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

**County of San Bernardino
Forest Falls Fire Protection District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Deposits and investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." All accounts receivable are shown net of an allowance for uncollectibles when applicable.

Property taxes

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

Capital assets

Capital assets, which include property, plant and equipment, and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of one (1) year. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset life is not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

County of San Bernardino
Forest Falls Fire Protection District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Property, plant and equipment of the government are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Infrastructure	40
Structures & improvements	5 – 45
Equipment and vehicles	6 – 15
Utility plant in service	45

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reconciliation of government-wide and fund financial statements

Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures and changes in fund balances includes reconciliation between *net changes in fund balances - total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this \$(18,983) difference are as follows:

Capital outlays	\$ -
Depreciation expense	<u>18,983</u>
Net adjustment to decrease <i>net change in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i> .	<u>\$(18,983)</u>

**County of San Bernardino
Forest Falls Fire Protection District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Stewardship, compliance and accountability

A. Budgetary information

In accordance with provisions of Section 29000 - 29143 of the Government code of the State of California, commonly known as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for capital assets within each fund.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the Special District's Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

B. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

NOTE 2: CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily cash balance during the allocation period. Cash and cash equivalents are shown at the fair value as of June 30, 2003.

NOTE 3: CAPITAL ASSETS

The costs of building and acquiring capital assets (land, buildings, vehicles and equipment) financed from the governmental funds are reported as expenditures in the year they are incurred, and the assets do not appear on the balance sheet. However, the Government-wide Balance Sheet includes those capital assets among the assets of the District as a whole and their original costs are expensed annually over their useful lives. Capital asset activity for the year ended June 30, 2003 was as follows:

**County of San Bernardino
Forest Falls Fire Protection District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 3: CAPITAL ASSETS - (Continued)

	Balance July 1, 2002	Additions	Disposals	Balance June 30, 2003
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 2,000	\$ -	\$ -	\$ 2,000
Total capital assets not being depreciated	2,000			
Capital assets being depreciated:				
Improvements to land	18,951			18,951
Vehicles	375,976	71,776		447,752
Equipment	6,500			6,500
Total capital assets being depreciated	401,427	71,776		473,203
Less accumulated depreciation for:				
Improvements to land	1,298	421		1,719
Vehicles	272,010	90,338		362,348
Equipment	6,500			6,500
Total accumulated depreciation	279,808	90,759		370,567
Total capital assets being depreciated, net	121,619	(18,983)		102,636
Total net capital assets	\$ 123,619	\$ (18,983)	\$ -	\$ 104,636

NOTE 4: SELF INSURANCE

The District participates in a Public Entity Risk Pool sponsored by the County. The District did not incur any insurance costs for annual premiums for the year ended June 30, 2003.

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and workers' compensation claims. Public liability claims are self-insured for up to \$250,000 per occurrence. Excess insurance coverage up to \$30 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II.

Workers' compensation claims are self-insured up to \$1 million per occurrence and covered by an independent carrier for the balance up to \$2 million for employer's liability and for workers' compensation statutory liability. Property damage claims are self-insured on an occurrence basis up to \$25,000 and insured by the CSAC EIA Property Programs I and II.

The County supplements its self-insurance for medical malpractice claims with an insurance policy that provides annual coverage on an occurrence basis with deductibles

**County of San Bernardino
Forest Falls Fire Protection District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 4: SELF INSURANCE - (Continued)

of \$1,000,000 for each claim and \$5,000,000 for total annual claims. Maximum coverage under the policy is \$20 million per occurrence with an additional \$30 million in limits provided by the CSAC EIA General Liability II Program.

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance and employee dental insurance, which are accounted for in the General Fund. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies and include amounts for claims incurred but not reported and allocated loss adjustment expense. The liabilities for these claims are reported using a discounted rate of 5.00%.

The County has an investment agreement with National Westminster Bank to finance the self-insured general liability, automobile liability, workers' compensation and medical malpractice programs. Quarterly disbursements are received by the County for fund reserves and payment of claims. The County's investment in the agreements totaled \$41,124,812 at June 30, 2003.

The claims liability of \$93,802,000 reported at June 30, 2003 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the claims liability amount in fiscal years 2002 and 2003 were:

Fiscal Year	Beginning of Fiscal Year Liability (in thousands)	Current-Year Claims and Changes in Estimates (in thousands)	Claims Payments (in thousands)	Balance at Fiscal Year-End (in thousands)
2002-2003	\$95,288	\$30,685	(\$32,171)	\$93,802
2001-2002	\$61,172	\$61,832	(\$27,716)	\$95,288

**County of San Bernardino
Forest Falls Fire Protection District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 5: RETIREMENT PLAN

Plan Description

The San Bernardino County Employees Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the Plan) operating under the California County Employees Retirement Act of 1937 (1937 Act). The plan provides retirement, death, and disability benefits to members. Although legally established as a single employer plan for the County of San Bernardino (which includes the District), the organizations listed below were added later:

- City of Big Bear Lake
- City of Chino Hills
- California State Association of Counties
- San Bernardino County Law Library
- Crest Forest Fire Protection District
- Mojave Desert Air Quality Management District (MDAQMD)
- South Coast Air Quality Management District (AQMD)
- Local Agency Formation Commission (LAFCO)

The District and others covered under the plan are collectively referred to as the "Participating Members." The plan is governed by the San Bernardino County Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report which may be obtained by contacting the Board of Retirement, 348 West Hospitality Lane, San Bernardino, California 92415-0014.

Funding Policy

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary bases on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.36% - 13.46% of their annual covered salary of which the County pays approximately 7%. All employers combined are required to contribute 8.90% of the current year covered payroll. For 2003, the County's annual pension cost of \$68,361 was equal to the County's required and actual contributions. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Sections 31453 of the 1937 Act.

**County of San Bernardino
Forest Falls Fire Protection District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 6: PROPOSITION 111 APPROPRIATION LIMITS

Proposition 111, which added Article XIII B to the State Constitution, established limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2002-2003 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

NOTE 7: NET ASSETS

Net assets represent the difference between assets and liabilities. The net asset amounts were as follows:

	<u>Governmental Activities</u>
Invested in Capital Assets, Net Related Debt: June 30, 2003	
Net land, Improvements to Land, Infrastructure, Construction in Progress, Utility Plant in Service, Structures and Improvements, and Equipment & Vehicles	\$ 104,636
Add prior year contributed capital	-
Less: Revolving loans payable	<u>-</u>
	104,636
Restricted	-
Unrestricted	76,444
Total Net Assets	<u>\$ 181,080</u>

**County of San Bernardino
Forest Falls Fire Protection District
Required Supplementary Information
Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2003**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Budgetary Basis</u>	<u>Final Budget Positive (Negative)</u>
Fire Protection				
Budgetary fund Balance, July 1, 2002	\$ 78,123	\$ 51,818	\$ 69,689	\$ 17,871
Resources (inflows):				
Property taxes	132,391	137,865	152,506	14,641
Interest and rents	1,500	2,000	1,640	(360)
Current Services	-	1,953		(1,953)
Amounts available for appropriation	212,014	193,636	223,835	30,199
Charges to appropriations (outflows):				
Salaries and benefits	52,496	56,602	53,570	3,032
Services and supplies	91,424	71,131	77,431	(6,300)
Central Computer		1,650		1,650
Structures and improvements	-	15,000	16,390	(1,390)
Vehicles	4,200			
Operating Transfer		4,825		4,825
Reserves and contingencies	63,894	44,428		44,428
Total charges to appropriations	212,014	193,636	147,391	46,245
Budgetary fund balance, June 30, 2003	\$ -	\$ -	\$ 76,444	\$ 76,444

COUNTY OF SAN BERNARDINO
CALIFORNIA
SPECIAL DISTRICTS
AUDIT REPORT
BLOOMINGTON PARK AND RECREATION DISTRICT
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

Prepared by:

Internal Audits Section
Office of the Auditor/Controller-Recorder
October 9, 2003

**County of San Bernardino Special Districts
Bloomington Park and Recreation District**

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AUDITOR/CONTROLLER-RECORDER COUNTY CLERK



COUNTY OF SAN BERNARDINO

AUDITOR/CONTROLLER • 222 West Hospitality Lane, Fourth Floor
San Bernardino, CA 92415-0018 • (909) 387-8322 • Fax (909) 386-8830

RECORDER • COUNTY CLERK • 222 West Hospitality Lane, First Floor
San Bernardino, CA 92415-0022 • (909) 387-8306 • Fax (909) 386-8940

LARRY WALKER
Auditor/Controller-Recorder
County Clerk

ELIZABETH A. STARBUCK
Assistant Auditor/Controller-Recorder
Assistant County Clerk

Independent Auditor's Report

October 9, 2003

TOM SUTTON, INTERIM DIRECTOR

Office of Special Districts
157 W. Fifth Street, Second Floor
San Bernardino, CA 92415-0450

**SUBJECT: AUDIT OF BLOOMINGTON PARK AND RECREATION DISTRICT FOR
THE FISCAL YEAR ENDED JUNE 30, 2003**

Introductory Remarks

In compliance with Section 26909 of the California Government Code, we have completed an audit of Bloomington Park and Recreation District for the fiscal year ended June 30, 2003.

Auditor's Report

We have audited the accompanying financial statements of the governmental activities, each major fund, and the remaining aggregate fund information of the County of San Bernardino's Special District Bloomington Park and Recreation District (District), a component unit of the County of San Bernardino, California, as of and for the year ended June 30, 2003, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the minimum audit requirements and reporting guidelines for California Special Districts required by the Office of the State Controller. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining,

on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the remaining aggregate fund information of the District as of June 30, 2003, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and the state regulations governing Special Districts.

The accompanying budgetary comparison information on page 19 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The District has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Larry Walker
Auditor/Controller-Recorder

Quarterly – Copies to:
County Administrative Office
Board of Supervisors
Grand Jury (2)

By:

Barbara K. Redding, CPA, CGFM
Internal Audits Manager

Audit File (3)
Date Report Distributed: 11/19/03

LDW:BKR:EBLL:dip2

**County of San Bernardino
Bloomington Park and Recreation
Statement of Net Assets
June 30, 2003**

ASSETS

Current assets:

Cash and cash equivalents	\$ 171,531
Taxes receivable	8,095
Interest receivable	955
Total current assets	<u>\$ 180,581</u>

Noncurrent assets:

Capital assets:

Land	92,750
Improvements to land	846,589
Structures and improvements	418,489
Equipment and vehicles	68,546
Less accumulated depreciation	<u>(912,405)</u>
Total noncurrent assets	<u>513,969</u>

Total assets	<u><u>\$ 694,550</u></u>
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LIABILITIES

Current liabilities:

Accounts payable	<u>2,193</u>
Total current liabilities	2,193

Noncurrent liabilities:

Total liabilities	<u>\$ 2,193</u>
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NET ASSETS

Invested in capital assets	513,969
Unrestricted	<u>178,388</u>
Total net assets	<u>\$ 692,357</u>
Total liabilities and net assets	<u><u>\$ 694,550</u></u>

**County of San Bernardino
Bloomington Park and Recreation
Statement of Activities
For the Fiscal Year Ended June 30, 2003**

EXPENSES

Salaries and benefits	\$ 63,197
Services and supplies	67,311
Depreciation	<u>25,755</u>
Total expenses	<u>156,263</u>

PROGRAM REVENUES

Charges for services	<u>89</u>
Total program revenues	<u>89</u>

Net program (expense) revenue	<u>(156,174)</u>
-------------------------------	------------------

GENERAL REVENUES

Property taxes	153,925
Interest	3,940
Other revenues	<u>6,138</u>
Total general revenues	<u>164,003</u>

Change in net assets	7,829
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Net assets - beginning	<u>684,528</u>
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Net assets - ending	<u>\$ 692,357</u>
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**County of San Bernardino
Bloomington Park and Recreation
Government Funds
June 30, 2003**

	Park and Rec (SSD)	Swim Program (SSE)	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 152,618	\$ 18,913	\$ 171,531
Taxes receivable	8,095		8,095
Interest receivable	858	97	955
Total assets	\$ 161,571	\$ 19,010	\$ 180,581
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	2,193	-	2,193
Total liabilities	\$ 2,193	\$ -	\$ 2,193
Fund balances:			
Reserved - encumbrances		3,500	3,500
Unreserved	159,378	15,510	174,888
Total fund balances	159,378	19,010	178,388
Total liabilities and fund balances	\$ 161,571	\$ 19,010	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

	513,969
Net assets of governmental activities	\$ 692,357

County of San Bernardino
Bloomington Park and Recreation
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2003

	Park and Rec (SSD)	Swim Program (SSE)	Total Governmental Funds
REVENUES			
Property taxes	\$ 153,925	\$ -	\$ 153,925
Other taxes	-	-	-
Government aid	6,255	-	6,255
Interest	3,445	465	3,910
Other revenues	-	-	-
Total revenues	163,626	465	164,091
EXPENDITURES			
Salaries and benefits	61,405	1,792	63,196
Professional services	10,304	-	10,304
Services and supplies	23,014	5,191	28,205
Utilities	28,579	-	28,579
Rents and leases	222	-	222
Total expenditures	123,524	6,983	130,507
Excess of revenues over (under) expenditures	40,102	(6,517)	33,584
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	-
Total other financing sources (uses)	-	-	-
Net change in fund balances	40,102	(6,517)	33,584
Fund balances - beginning	119,277	25,527	144,804
Fund balances - ending	\$ 159,379	\$ 19,010	\$ 178,388

**County of San Bernardino
Bloomington Park and Recreation
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Fiscal Year Ended June 30, 2003**

Net change in fund balances - total governmental funds	\$	33,584
--	----	--------

Amounts reported for governmental activities in the statement of activities
are different because:

Governmental funds report capital outlays as expenditures. However,
in the statement of activities, the cost of those assets is allocated
over their estimated useful lives and reported as depreciation
expense. This is the amount by which depreciation expense
exceeded capital outlay in the current period.

(25,755)

Change in net assets of governmental activities

\$	<u>7,829</u>
----	--------------

**County of San Bernardino
Bloomington Park and Recreation
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Bloomington Park and Recreation District (the District) – is a special district located within the County of San Bernardino. The District has governmental powers as established by the San Bernardino County Government Charter (the County). The County was established in 1852 as a legal subdivision of the State of California.

The District was established by an act of the Board of Supervisors of the County of San Bernardino and maintains two community parks, an equestrian arena, sports fields, and a community center. Currently, an ECD block grant funds a summer swim program within the community of Bloomington.

The District is a component unit of the County. Component units are legally separate organizations for which the Board is financially accountable or other organizations whose nature and significant relationship with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. Financial accountability is defined as the appointment of a voting majority of the component unit's board, and either (i) the County has the ability to impose its will on the organization, or (ii) there is potential for the organization to provide a financial benefit to or impose a financial burden on the County.

The accompanying financial statements reflect only the accounts of Bloomington Park and Recreation District and are not intended to present the financial position of the County taken as a whole.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the reporting entity. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally

**County of San Bernardino
Bloomington Park and Recreation
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. However, for revenue derived from voluntary non-exchange transactions, such as taxes and federal and state grants, the County expanded its definition of "available" to 9 months. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

**County of San Bernardino
Bloomington Park and Recreation
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

The special revenue fund labeled "Park and Recreation" is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *special revenue fund* labeled "Swim Program" provides fee exempt recreation opportunities and swim lessons for economically disadvantaged families in Bloomington.

There are also four *capital projects funds*: Water Park at Ayala Park, Ayala Park Fountain, Street Improvement, and Ayala Park Improvement. These capital project funds provide improvements and maintenance for the water park and street.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Deposits and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds"

(i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding

**County of San Bernardino
Bloomington Park and Recreation
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." All accounts receivable are shown net of an allowance for uncollectibles when applicable.

Property Taxes

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

Capital Assets

Capital assets, which include property, plant and equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are, reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of one (1) year. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Structures & improvements	5 – 45
Equipment and vehicles	6 – 15

Fund Equity

In the fund financial statements, governmental funds report reservations of fund

**County of San Bernardino
Bloomington Park and Recreation
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *Continued*

balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reconciliation of Government-Wide and Fund Financial Statements

Explanation of certain differences between the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the government-wide Statement of Activities:

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between *net changes in fund balances - total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this \$25,755 difference are as follows:

Capital Outlay	\$ - 0 -
Depreciation Expense	<u>25,755</u>

Net adjustment to decrease <i>net change in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	\$ <u>(25,755)</u>
---	--------------------

Stewardship, Compliance and Accountability

A. Budgetary information

In accordance with provisions of Section 29000 - 29143 of the Government code of the State of California, commonly known as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for capital assets within each fund.

**County of San Bernardino
Bloomington Park and Recreation
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the Special District's Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

B. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent year.

NOTE 2: CASH AND CASH EQUIVALENTS

Cash and Cash Equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and Cash Equivalents are shown at the fair value as of June 30, 2003.

NOTE 3: CAPITAL ASSETS

The costs of building and acquiring capital assets (land, buildings, vehicles and equipment) financed from the governmental funds are reported as expenditures in the year they are incurred, and the assets do not appear on the balance sheet. However, the statement of net assets includes those capital assets among the assets of Bloomington Park and Recreation District as a whole, and their original costs are expensed annually over their useful lives.

Capital asset activity for governmental activities for the year ended June 30, 2003 follows. All governmental assets and depreciation are from park and recreation activity.

**County of San Bernardino
Bloomington Park and Recreation
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 3: CAPITAL ASSETS - Continued

	Balance at July 1, 2002	Additions	Disposals	Balance at June 30, 2003
Governmental activities				
Capital assets not being depreciated:				
Land	\$ 92,750	\$ -	\$ -	\$ 92,750
Total capital assets not being depreciated	92,750	-	-	92,750
Capital assets being depreciated:				
Improvements to land	846,589	-	-	846,589
Structures and improvements	418,489	-	-	418,489
Vehicles	51,694	-	-	51,694
Equipment	16,852	-	-	16,852
Total capital assets being depreciated	1,333,624	-	-	1,333,624
Less accumulated depreciation for:				
Improvements to land	653,175	14,759	-	667,934
Structures and improvements	179,236	9,068	-	188,344
Vehicles	37,604	1,670	-	39,274
Equipment	16,595	258	-	16,853
Total accumulated depreciation	886,650	25,755	-	912,405
Total capital assets being depreciated, net	446,974	25,755	-	421,219
Total net capital assets	\$ 539,724	\$25,755	\$ -	\$ 513,969

NOTE 4: RETIREMENT PLAN

Plan Description

The San Bernardino County Employees Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the Plan) operating under the California County Employees Retirement Act of 1937 (1937 Act). The plan provides retirement, death, and disability benefits to members. Although legally established as a

**County of San Bernardino
Bloomington Park and Recreation
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 4: RETIREMENT PLAN – *Continued*

single employer plan for the County of San Bernardino (which includes the District), the organizations listed below were added later:

- City of Big Bear Lake
- City of Chino Hills
- California State Association of Counties
- San Bernardino County Law Library
- Crest Forest Fire Protection District
- Mojave Desert Air Quality Management District (MDAQMD)
- South Coast Air Quality Management District (AQMD)
- Local Agency Formation Commission (LAFCO)

The District and others covered under the plan are collectively referred to as the "Participating Members." The plan is governed by the San Bernardino County Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report which may be obtained by contacting the Board of Retirement, 348 West Hospitality Lane, San Bernardino, California 92415-0014.

Funding Policy

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary bases on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.36% - 13.46% of their annual covered salary of which the County pays approximately 7%. All employers combined are required to contribute 8.90% of the current year covered payroll. For 2003, the County's annual pension cost of \$68,361 was equal to the County's required and actual contributions. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Sections 31453 of the 1937 Act.

NOTE 5: FEDERAL AND STATE GRANTS

From time to time the District may receive funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be

**County of San Bernardino
Bloomington Park and Recreation
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 5: FEDERAL AND STATE GRANTS– *Continued*

disallowed by the grantors cannot be determined at this time, although the CSA expects such amounts, if any, to be immaterial.

NOTE 6: SELF INSURANCE

The District participates in a Public Entity Risk Pool sponsored by the County of San Bernardino (County). The District did not incur any insurance costs for annual premiums for the year ended June 30, 2003.

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and workers' compensation claims. Public liability claims are self-insured for up to \$250,000 per occurrence. Excess insurance coverage up to \$30 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II.

Workers' compensation claims are self-insured up to \$1 million per occurrence and covered by an independent carrier for the balance up to \$2 million for employer's liability and for workers' compensation statutory liability. Property damage claims are self-insured on an occurrence basis up to \$25,000 and insured by the CSAC EIA Property Programs I and II.

The County supplements its self-insurance for medical malpractice claims with an insurance policy that provides annual coverage on an occurrence basis with deductibles of \$1,000,000 for each claim and \$5,000,000 for total annual claims. Maximum coverage under the policy is \$20 million per occurrence with an additional \$30 million in limits provided by the CSAC EIA General Liability II Program.

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance and employee dental insurance, which are accounted for in the General Fund. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies and include amounts for claims incurred but not reported and allocated loss adjustment expense. The liabilities for these claims are reported using a discounted rate of 5.00%.

The County has an investment agreement with National Westminster Bank to finance the self-insured general liability, automobile liability, workers' compensation and medical malpractice programs. Quarterly disbursements are received by the County for fund reserves and payment of claims. The County's investment in the agreements totaled \$41,124,812 at June 30, 2003.

**County of San Bernardino
Bloomington Park and Recreation
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 6: SELF INSURANCE – Continued

The claims liability of \$93,802,000 reported at June 30, 2003 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

Changes in the claims liability amount in fiscal years 2002 and 2003 were:

Fiscal Year	Beginning of Fiscal Year Liability (in thousands)	Current-Year Claims and Changes in Estimates (in thousands)	Claims Payments (in thousands)	Balance at Fiscal Year-End (in thousands)
2002-2003	\$95,288	\$30,685	(\$32,171)	\$93,802
2001-2002	\$61,172	\$61,832	(\$27,716)	\$95,288

NOTE 7: CONTINGENCIES

As of June 30, 2003, in the opinion of the District Administration, there are no outstanding matters, which would have a significant effect on the financial position of the District.

NOTE 8: PROPOSITION 111 APPROPRIATION LIMITS

Proposition 111, which added Article XIII B to the State Constitution, established limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2002-2003 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

Required Supplemental Information
County of San Bernardino
Bloomington Park and Recreation District
Budgetary Comparison Schedule - Special Revenue Funds
June 30, 2003

NOTE 9: NET ASSETS

Net assets represent the difference between assets and liabilities. The net asset amounts were as follows:

	<u>Governmental Activities</u>
Invested in Capital Assets, Net of Related Debt: June 30, 2003	
Net Land, Improvements to Land, Infrastructure, Construction in Progress, Utility Plant in Service, Structures and Improvements, and Equipment & Vehicles	\$ 513,969 <u>513,969</u>
Unrestricted	<u>178,388</u>
Total Net Assets	\$ <u><u>692,357</u></u>

**Required Supplemental Information
County of San Bernardino
Bloomington Park and Recreation District
Budgetary Comparison Schedule - Special Revenue Funds
June 30, 2003**

<u>SPECIAL REVENUE FUNDS</u>				
<u>General and Swim Program</u>				
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES:				
Property taxes	\$ 132,838	\$ 144,937	\$ 153,925	\$ 8,988
Interest and rents	1,000	16,100	3,911	(12,189)
Operating transfers in		30,309		(30,309)
Charges for services	500	500		(500)
Government aid	-	137,000	6,256	(130,744)
Total revenues	<u>134,338</u>	<u>328,846</u>	<u>164,092</u>	<u>(164,754)</u>
EXPENDITURES:				
Salaries and benefits	47,602	101,448	63,197	38,251
Services and supplies	102,048	101,020	67,312	33,708
Reserves and contingencies	10,500	130,683		130,683
Operating transfers out	67,000	137,000	-	137,000
Other expenditures		3,500		3,500
Total expenditures	<u>216,650</u>	<u>473,651</u>	<u>130,509</u>	<u>339,642</u>
Net change in Fund Balances	<u>\$ (82,312)</u>	<u>\$ (144,805)</u>	33,583	<u>\$ (178,388)</u>
Fund Balances - beginning			<u>144,805</u>	
Fund Balances - ending			<u>\$ 178,388</u>	

AUDITOR/CONTROLLER-RECORDER COUNTY CLERK



COUNTY OF SAN BERNARDINO

AUDITOR/CONTROLLER • 222 West Hospitality Lane, Fourth Floor
San Bernardino, CA 92415-0018 • (909) 387-8322 • Fax (909) 386-8830

RECORDER • COUNTY CLERK • 222 West Hospitality Lane, First Floor
San Bernardino, CA 92415-0022 • (909) 387-8306 • Fax (909) 386-8940

LARRY WALKER
Auditor/Controller-Recorder
County Clerk

ELIZABETH A. STARBUCK
Assistant Auditor/Controller-Recorder
Assistant County Clerk

September 4, 2003

Ken Miller, Director
Department of Public Works
825 East Third Street
San Bernardino, CA 92415-0635

SUBJECT: PRADO REGIONAL PARK CASH LOSS

Introductory Remarks

We have completed an audit of the possible cash loss and the internal controls in place over cash receipts at Prado Regional Park. The audit was conducted pursuant to the authority granted under Article V, Section 6 of the San Bernardino County Charter and the Board of Supervisors' Policy Statement of Internal Operational Auditing.

Background

The audit was conducted in response to a report received by the Auditor/Controller-Recorder's Office on February 13, 2003. The Superintendent of Prado Regional Park discovered a large number of unexplained camp cancellations when preparing a bank deposit on January 28, 2003 and reported this to Tom Potter, Chief of Regional Parks. Further investigation by regional parks accounting staff determined that cash receipts were missing. Mr. Potter then notified the Auditor/Controller-Recorder's Office and a report was made later to the Chino Hills Sheriff's Station on March 18, 2003.

Audit Scope

Our audit covered the period March 2002 to March 2003 and was made in accordance with the standards developed by the Institute of Internal Auditors. We also reviewed compliance with the procedures outlined in the San Bernardino County Internal Controls and Cash Standard Practice Manual, in addition to the Regional Parks Revenue Handling and Cash Accountability Procedures.

As discussed with regional parks management at the commencement of the audit on February 19, 2003, this audit was conducted for several purposes:

- (1) To provide an approximate amount of the cash loss (see Part I of this report) and
- (2) To assess the effectiveness of existing internal controls over the cash receipting process (see Part II of this report).

We reviewed recorded receipts, procedures, and records covering the audit period. Deposits and related transactions for February 2003 were also examined to provide a comparative assessment of reported transactions for the audit period.

This audit, conducted for the limited purposes described above, would not necessarily disclose all material weaknesses in internal controls. A material weakness is a condition in which the design or operation of one or more of the internal controls does not reduce to a relatively low level the risk that material errors or fraud may occur and be detected timely by employees during the normal course of performing their duties. Accordingly, we did note some conditions that required immediate attention. These weaknesses were brought to management's attention and corrective action has already been implemented in some cases.

A draft report was sent to Regional Parks on December 2, 2003, and Regional Parks' responses to our recommendations dated December 4, 2003, are included in this report.

Part I – Loss Estimate

Audit testing revealed that cash receipts totaling \$22,684 received by Prado Regional Park between March 2002 and March 2003 could not be accounted for. This total was derived by comparing detail cash register tapes and camp receipt books to the Daily and Weekly Revenue Reports and then tracing each day's deposit to bank statements.

The Daily Revenue Reports and deposits prepared daily at the park are compiled into the Weekly Revenue Report at week end and submitted to Regional Parks Administration. The Daily Revenue Report is prepared using a cash register to summarize daily receipts for each transaction type. Camp receipt numbers and comparisons between register tape totals and actual receipts are listed on the report. Explanations for any overages or shortages are to be explained on the back of the report while voids are to be explained on a separate form that is attached to the report. Audit testing disclosed that staff consistently did not properly list camp receipt numbers on the Daily Revenue Report or give explanations for overages, shortages and voids. There was no supervisory review of the Daily and Weekly Revenue Reports or deposits to ensure that established procedures were followed. The absence of this review enabled receipting, depositing, and reporting discrepancies to remain undetected.

safeguard, record, process, and report financial data according to department and County policy. These conditions, with recommendations for improvement, are summarized as follows:

Summary of Findings and Recommendations Respectively:

- | | |
|------------------------|---|
| Finding 1: | Segregation of duties was inadequate. |
| Recommendation: | Separate the receipting and deposit functions. |
| Finding 2: | Deposits were not made timely or properly safeguarded. |
| Recommendation: | Prepare and make deposits on a timely basis. |
| Finding 3: | Cash handling procedures were not followed. |
| Recommendation: | Follow established procedures regarding proper cash handling. |
| Finding 4: | County procedures regarding cash overages and/or shortages were not followed. |
| Recommendation: | Maintain a log of all shortages and deposit overages as required. |
| Finding 5: | Cash accountability procedures were not followed and should be updated. |
| Recommendation: | Follow and implement additional control procedures for the approval and recording of register voids and receipts on the Daily and Weekly Revenue Reports. |

FINDINGS AND RECOMMENDATIONS

Finding #1 Segregation of duties was inadequate.

The control objective underlying segregation of duties is that no one employee or group of employees should have control over a transaction or asset. To do so, places employees in a position to perpetrate and conceal errors or irregularities in the normal course of their duties. When any one individual is responsible for collecting cash, depositing receipts, and recording collections, the risk that fraud can occur is extremely high. At Prado Regional Park, only one employee regularly performed all these tasks, even though seven other employees were also authorized to be cashiers, prepare deposits, authorize voids, close out registers, and record receipts in the park database. When one person is in charge of the cash register, preparing deposit slips, making the deposit, and preparing the related reports, irregularities can be concealed and remain undetected.

Discussions with park superintendents and Regional Parks Administration disclosed that while Regional Parks does have adequate revenue handling and cash accountability procedures, there is a general lack of knowledge of and even a reluctance to follow these procedures on the part of both park superintendents and their staff.

Recommendation:

We encourage park administration to incorporate into each regular staff meeting discussions and training that reinforces cash handling procedures and ensures that procedures are followed uniformly at every park. Regular reviews should be conducted to demonstrate to staff that compliance is mandatory. Park superintendents should establish review procedures of cash receipting activities so that errors will be caught timely, and losses due to theft or carelessness will be discouraged. Submit a request to Risk Management to cover the amount of the loss.

Management's Response:

During the audit, the auditor held a training session with the parks superintendents and assistant superintendents. Cash handling procedures were addressed including the auditor's review and recommendations of the procedures. The following areas were covered by the auditor: Cash Control – Segregation of Duties; Safeguarding of Cash; Cash Handling; Overages and Shortages; Cash Accountability – Void; Daily Revenue Reports – Questions.

Following the meeting, Regional Parks accounting staff visited the parks, audited receipts and interviewed staff regarding cash handling policies and weekly revenue reporting procedures.

Currently, Regional Parks accounting staff is conducting ongoing random audits of the Regional Parks.

An orientation will be conducted covering cash handling procedures for the two new park superintendents. Following the orientation, training will be conducted on a park-by-park basis for all employees updating them on current and updated policies, procedures and forms.

Part II – Assessment of Internal Controls

Executive Summary

Overall, we found that Prado Regional Park's cash receipting process had weak internal controls. We noted conditions at the park which could adversely affect its ability to

Recommendation:

Assign duties so that no one individual has access to the entire cash process. Specifically:

- Separate the receipting and deposit preparation functions. Assign an employee other than the cashier or the individual issuing receipts to make deposits.
- Assign someone other than the cashier or person who makes the deposits to reconcile the daily and weekly revenue reports.

Management's Response:

Duties are now separated between the employees:

Receipting:	General Service Worker/Clerk
Cashiering:	PSE, and Rangers
Reservations/Picnics:	Clerk
Deposits:	Asst. Supt./Ranger II
Dailies:	Asst. Supt./Ranger II
Weekly Summary Report:	Asst. Supt

This is covered in the San Bernardino County Regional Parks Employee Manual Section 03-01 Revenue Handling and Cash Accountability Procedures, II Cash Accountability – Opening Accountability Procedures and Closing Accountability Procedures.

Finding # 2 Deposits were not made timely or properly safeguarded.

Large amounts of cash should not be accumulated. Deposits should be prepared and made on a timely basis. Prado Regional Park's deposit procedure was to prepare the current day's deposit the next morning. It was noted by the auditor that sometimes several deposits were combined and placed in the safe before a deposit was prepared. Also, deposits were placed in the safe in unsealed deposit bags. Furthermore, the deposits were not prepared until the afternoon, allowing for the substitution of checks from the current day's receipts with cash from the prior day's deposit.

Recommendation:

- Prepare the deposit at the end of each business day. Place the deposit in the safe in a sealed bank deposit bag.

- All cash receipts for a given day should be deposited at the conclusion of the business day, or the following morning when daily cash receipts exceed the amount established by the department head as to what is a "large amount of cash". Deposits should be made at least weekly.

Management's Response:

Deposits are now prepared on a daily basis and currency and checks are sealed in an armored transport bag. The sealed bags are placed in the safe. Armored Transport picks up sealed bags three times a week.

This is covered in the San Bernardino County Regional Parks Employee Manual Section 03-01 Revenue Handling and Cash Accountability Procedures, II Cash Accountability – Safeguarding Cash.

Finding # 3 Cash handling procedures were not followed.

Employees must exercise extreme care when handling cash and observe established procedures to guard against cash losses. Regional Parks administration has established procedures for the handling of cash by cashiers at the many cash registers within the parks. These procedures were not being followed by the cashiers at Prado Regional Park. Cashiers worked out of common cash drawers, did not sign on and off at the register and were not held accountable for properly ringing in receipts collected during their shifts.

Recommendation:

Follow established procedures regarding proper cash handling. Specifically:

- Assign a separate cash drawer so that two cashiers do not operate from the same cash drawer. It is the cashier's responsibility to keep the cash drawer closed and register locked when not in use.
- Count and verify the cashier's change funds at the start of the day or shift. Establish responsibility for the change funds by requiring the superintendent to create a Change Fund Verification Log. Cashiers will verify receipt of the change fund by initialing the log and by indicating the amount of change received.
- Verify the numerical sequence of transaction numbers on the cash register tapes. This should be done at the end of each day when preparing the Daily Revenue Report and especially at the end of each week and/or when a deposit is made.

- Ensure that all transactions are "rung up" on a cash register with *Regional Parks* imprinted on the tape receipt given to the park's customers after money is collected.
- Ensure that the number of "no sale transactions" is held to a minimum. The only reason for ringing up the register is to make a sale or provide change. The cashier should be made to account for excessive "no sale" transactions.
- Provide additional training and/or discipline for cashiers who constantly have problems ringing in transactions indicating cash, checks or charge.
- Assign only one cashier per shift. This individual should not be the park superintendent, park ranger, or supervisor on duty. During the cashier's breaks or lunch periods, provisions should be made to maintain separate cash drawers for monies received by the person providing relief for the cashier.
- Assign the supervisor in charge to clear out the register totals for the day's business. The cashier, at no time, is to have the capability of clearing out cash register totals.
- Assign the supervisor in charge to reconcile the cash register tape total with the monies turned in by the cashier at the end of each business day. When reconciled, furnish the cashier with a receipt for the monies turned in.

Management's Response:

The Prado Regional Park gate now has two cash registers in use instead of two cash drawers. The cashier uses one register while the back-up cashier uses the other. When taking a break, the register's drawer is locked and the back-up uses the other register. Registers are also programmed for each employee to use their own code when signing in and out. A supervisor or ranger who has not cashiered during the day clears out the registers. The ranger, superintendent, or the superintendent's assistant, reconciles the tapes to the daily receipts.

All other parks are using two cash drawers that are locked when not in use.

This is covered in the San Bernardino County Regional Parks Employee Manual Section 03-01 Revenue Handling and Cash Accountability Procedures, I Revenue Handling #10.

Finding # 4 County procedures regarding cash overages and/or shortages were not followed.

Procedures regarding cash overages and shortages outlined in the County's Internal Controls and Cash Manual and adopted by Regional Parks into their Revenue Handling and Cash Accountability Procedures were not followed. Cash shortages recorded during the course of business were not investigated and resolved. Shortages and overages were netted and a single difference listed on the Daily and Weekly Revenue Reports.

Recommendation:

Follow procedures for identifying and reporting cash overages to ensure such funds are deposited to the Cash Overage Fund as required in the County's Internal Control and Cash Manual. Maintain a log, incorporating the park's cash difference fund, documenting all daily shortages, showing amount, date, and name of the cashier incurring the shortage. Report such shortages as required. Ensure that shortages and overages are not netted, but establish accountability for individual occurrences by ensuring that separate logs are maintained, one for overages and one for shortages.

Management's Response:

The park superintendent is now using a log and forms to record and report all overages and shortages on a daily basis, the logs and forms are submitted to the administrative office weekly. Overages are audited on an on going basis to ensure that they are properly accounted for.

This is covered in the San Bernardino County Regional Parks Employee Manual Section 03-01 Revenue Handling and Cash Accountability Procedures, II Cash Accountability – Cash Shortages/Overages.

Finding # 5 Cash accountability procedures were not followed and should be updated.

Regional parks administration has established procedures for the proper recording of daily cash receipts. However, we discovered a lack of controls as the following practices were in effect at Prado Regional Park:

- Manager voids at the register were not properly accounted for.
 - Prior supervisory approval for manager voids was not obtained and/or not recorded.
 - In many instances, manager voids were not explained on a void form as required.
- The Daily and Weekly Revenue Reports were not filled out properly and should be updated for improved accountability.
 - Beginning and ending receipt numbers were not recorded properly.
 - Cash and checks were reported as a combined total.
 - Signatures of the preparer and reviewer of the reports were typewritten rather than hand written.
 - Beginning and ending register transaction numbers were not recorded on the daily revenue report.

Recommendation:

Update control procedures for cash accountability as follows:

- Manager Voids
 - Obtain supervisor's approval of the void at the time of the occurrence.
 - Complete a void form when an error is made. Staple the original customer receipt to the void form. Additionally, the error on the detail (audit) tape should be circled, the word "void" written, and initialed by the cashier.
 - At the end of the day, the void form(s) should be reviewed and signed by the superintendent, or designee, and submitted with the Daily Revenue Report.
- Daily and Weekly Revenue Reports
 - Write beginning and ending register transaction numbers on the daily revenue report. Verify that there are no breaks in the transaction number sequence by comparing them with the daily revenue report from the previous day.
 - For receipts used, mark the beginning and ending ticket numbers in the proper columns provided. Check all ticket books to be sure that receipts are not missing, or were sold out of numerical order.
 - Use separate line items on the revenue reports for cash and checks. Verify reasonableness of the cash total by comparing the cash total on the register tape with the cash total reported on the report.
 - The person preparing the daily and weekly revenue reports should sign the reports indicating that he/she prepared the report. The superintendent or designee should sign the daily and weekly revenue reports to verify they have reviewed the report and compared its contents with register tapes and receipt books.

Management's Response:

The park superintendent now approves and reviews all voids at the end of the day. If the superintendent is not available to approve a void at the time of the sale, the receipt is held for approval until the superintendent's return. Cashiers are questioned on the validity of the voids. The park superintendent is held accountable for all voids listed weekly on the register tapes. Voids are submitted with the weekly revenue report to the Administration Office for review. Park superintendents and assistant superintendents are the only staff allowed to perform Manager Voids.

Ken Miller, Director
Department of Public Works
Prado Regional Park
September 4, 2003
Page 10

Weekly revenue reports are currently under revision to improve control and accountability. Cash and checks are reported separately at all parks and park superintendents are verifying and signing weekly revenue reports.

This is covered in the San Bernardino County Regional Parks Employee Manual Section 03-01 Revenue Handling and Cash Accountability Procedures, II Cash Accountability – Voids and Section II Cash Accountability – Revenue Reports.

Follow up

Six months after the issue of this audit report the Internal Audits Section will follow up the implementation and effectiveness of agreed recommendations. A progress report will be provided to management and the Board of Supervisors.

Acknowledgements

We wish to thank the management and staff for their full cooperation during the audit.
Respectfully submitted,

Copies to:

Larry Walker
Auditor/Controller-Recorder

County Administrative Office
Board of Supervisors
Risk Management Division, Pamela Thompson
Tom Potter, Chief of Regional Parks
Grand Jury (2)
Audit File (3)

By: _____
Barbara K. Redding, CPA
Internal Audits Manager

Date Report Distributed: _____

12/8/03

LDW:BKR:spr.2

COUNTY OF SAN BERNARDINO
CALIFORNIA
SPECIAL DISTRICTS
AUDIT REPORT
CRESTLINE SANITATION DISTRICT
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

Prepared by:

Internal Audits Section
Office of the Auditor/Controller-Recorder
October 1, 2003

**County of San Bernardino Special Districts
Crestline Sanitation District**

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AUDITOR/CONTROLLER-RECORDER COUNTY CLERK



COUNTY OF SAN BERNARDINO

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San Bernardino, CA 92415-0022 • (909) 387-8306 • Fax (909) 386-8940

LARRY WALKER
Auditor/Controller-Recorder
County Clerk

ELIZABETH A. STARBUCK
Assistant Auditor/Controller-Recorder
Assistant County Clerk

Independent Auditor's Report

October 1, 2003

Tom Sutton, Interim Director
Office of Special Districts
157 W. Fifth Street, Second Floor
San Bernardino, CA 92415-0450

**SUBJECT: AUDIT OF CRESTLINE SANITATION DISTRICT FOR THE FISCAL YEAR
ENDED JUNE 30, 2003**

Introductory Remarks

In compliance with Section 26909 of the California Government Code, we have completed an audit of Crestline Sanitation District for the fiscal year ended June 30, 2003.

Auditor's Report

We have audited the accompanying financial statements of the business-type activities of Crestline Sanitation District, a component unit of the County of San Bernardino, California, as of and for the year ended June 30, 2003, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the minimum audit requirements and reporting guidelines for California Special Districts required by the Office of the State Controller. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Crestline Sanitation District as of June 30, 2003, and the respective changes in its financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and the state regulations governing Special Districts.

The Crestline Sanitation District has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Larry Walker
Auditor/Controller-Recorder

Quarterly - Copies to:
County Administrative Office
Board of Supervisors
Grand Jury (2)

By: **Barbara K. Redding, CPA, CGFM**
Internal Audits Manager

Audit File (3)
Date Report Distributed: 12/5/03

LDW:BKR:CL:dlp3

**County of San Bernardino
Crestline Sanitation District
Statement of Net Assets
Proprietary Funds
June 30, 2003**

	<u>Enterprise Fund Sewer</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 6,158,346
Accounts receivable	260,736
Taxes receivable	58,903
Interest receivable	31,586
Due from other governments	146,599
Total current assets	<u>6,656,170</u>
Noncurrent assets:	
Capital assets:	
Land	213,308
Construction in progress	566,460
Structures, utility plant, and improvements	21,761,943
Equipment and vehicles	1,370,095
Less accumulated depreciation	(13,919,841)
Total noncurrent assets	<u>9,991,965</u>
Total assets	<u>\$ 16,648,135</u>
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 104,686
Salaries and benefits payable	57,878
Current portion of loans payable	107,975
Due to other governments	1,019
Total current liabilities	<u>271,558</u>
Noncurrent liabilities:	
Noncurrent portion of loans payable	1,309,067
Employee compensated absences	86,994
Total noncurrent liabilities	<u>1,396,061</u>
Total liabilities	<u>1,667,619</u>
NET ASSETS	
Invested in capital assets, net of related debt	8,574,923
Unrestricted	<u>6,405,593</u>
Total net assets	<u>14,980,516</u>
Total liabilities and net assets	<u>\$ 16,648,135</u>

County of San Bernardino
Crestline Sanitation District
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2003

	Enterprise Fund Sewer
OPERATING REVENUES	
Charges for services	\$ 1,562,775
Other services	1,819
Total operating revenues	<u>1,564,594</u>
OPERATING EXPENSES	
Salaries and benefits	1,275,997
Professional services	74,311
Services and supplies	503,713
Utilities	77,899
Rents and leases	676
Other operating expenses	12,130
Depreciation	543,507
Total operating expenses	<u>2,488,233</u>
Operating Income (Loss)	<u>(923,639)</u>
NONOPERATING REVENUES (EXPENSES)	
Interest	165,429
Property taxes	745,702
Special Assessments	162,200
Other taxes	28,491
State aid	169,458
Other nonoperating revenues	814
Interest expense	<u>(25,769)</u>
Total nonoperating revenues (expenses)	<u>1,246,325</u>
	322,686
Capital contributions:	
Transfers in	1,335,105
Transfers out	(1,335,105)
Change in net assets	322,686
Net assets, July 1, 2002, as previously reported	14,700,414
Prior period adjustment	(42,584)
Net assets - beginning (restated)	<u>14,657,830</u>
Net assets - ending	<u>\$ 14,980,516</u>

**County of San Bernardino
Crestline Sanitation District
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2003**

	Enterprise Fund Sewer
CASH FLOWS FROM OPERATING ACTIVITIES	
Received from user charges	\$ 1,679,476
Payments to employees for services and benefits	(1,317,941)
Payments to suppliers for goods and services	(675,550)
	<hr/>
Net cash provided (used) by operating activities	(314,015)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Taxes received	926,157
Grants received	169,458
Other expenses	(2,544)
	<hr/>
Net cash provided (used) by noncapital financing activities	1,093,071
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Payments related to the acquisition, construction and improvement of capital assets	(333,093)
Principal paid on capital debt	(80,817)
Interest paid on capital debt	(27,158)
	<hr/>
Net cash provided (used) by capital and related financing activities	(441,069)
CASH FLOWS FROM INVESTING ACTIVITIES	
Increase in fair value of investments	3,358
Interest	188,320
	<hr/>
Net cash provided (used) by investing activities	191,678
Net increase in cash and cash equivalents	529,665
Cash and cash equivalents - beginning	5,628,681
Cash and cash equivalents - ending	<hr/> \$ 6,158,346 <hr/>

(Continued)

County of San Bernardino
Crestline Sanitation District
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2003

	<u>Enterprise Fund Sewer</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:	
Operating income (loss)	\$ (923,639)
Adjustments to reconcile operating income to net cash provided by operating activities:	
(Increase) in Accounts Receivable	(9,748)
Decrease in Other Receivables	19,674
Decrease in Due From Other Funds	1,161
Decrease in Due from Other Governments	103,794
Depreciation Expense	543,507
Increase in Accounts Payable	19,329
Less: Increase in Accounts Payable - capital asset purchases	(26,007)
Increase in Salaries & Benefits Payable	3,921
(Decrease) in Due to Other Funds	(1,161)
Increase in Due to Other Governments	1,019
(Decrease) in Employee Compensated Absences	(45,865)
Net cash provided by operating activities	<u>\$ (314,015)</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:	
Purchase of equipment and vehicles on account	<u>\$ 99,206</u>

**County of San Bernardino
Crestline Sanitation District
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Crestline Sanitation District (the District) is a special district located within the County of San Bernardino. The District has governmental powers as established by the San Bernardino County Government Charter (the County). The County was established in 1852 as a legal subdivision of the State of California.

The District was established by an act of the Board of Supervisors of the County of San Bernardino on January 21, 1946, to provide sewer services to the Lake Gregory area. The District operates and maintains three treatment plants, 90 miles of collection systems, 14-mile effluent outfall line, and an effluent disposal site. The District currently serves 5,492 residential and commercial connections.

The District is a component unit of the County. Component units are legally separate organizations for which the Board is financially accountable or other organizations whose nature and significant relationship with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. Financial accountability is defined as the appointment of a voting majority of the component unit's board, and (i) either the County's ability to impose its will on the organization or (ii) there is potential for the organization to provide a financial benefit to or impose a financial burden on the County.

The accompanying financial statements reflect only the accounts of Crestline Sanitation District and are not intended to present the financial position of the County taken as a whole.

Measurement focus, basis of accounting, and financial statement presentation

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Proprietary funds are reported using the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The transactions of the District are accounted for on a flow of *economic resources measurement focus*. With this measurement focus, all assets and all liabilities associated with the operations are included on the balance sheet.

**County of San Bernardino
Crestline Sanitation District
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the District's enterprise fund is charges to customers for sanitation services. Operating expenses for enterprise funds include the cost of salaries and benefits, services and supplies, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

All activities of the District are accounted for within a single proprietary (enterprise) fund.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Agency funds are used to account for assets held by the District as an agent for individuals, private organizations, other governments and/or other funds. The funds are custodial in nature (assets equal liabilities) and do not involve measurement of the results of operations. The modified accrual basis of accounting is used for the agency fund. The fund is used to account for the accumulation of resources for, and payment of, the bonds issued under the Improvement Act of 1915 for certain sewer improvements.

Deposits and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other

**County of San Bernardino
Crestline Sanitation District
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." All accounts receivables are shown net of an allowance for uncollectibles when applicable.

Property taxes

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

Inventories and prepaid items

Inventories, if any, are valued at cost using the first-in/first-out method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the enterprise fund financial statements.

Capital assets

Capital assets, which include property, plant and equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the enterprise fund. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of one (1) year. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government are depreciated using the straight-line method over the following estimated useful lives:

County of San Bernardino
Crestline Sanitation District
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *Continued*

<u>Assets</u>	<u>Years</u>
Structures and Improvements	20 – 45
Utility Plant in Service	45
Equipment and Vehicles	5 – 15

Net assets

Net assets comprise the various net earnings from operating and nonoperating revenues, expenses and contribution of capital. Net assets are classified in the following three components:

Invested in capital assets, net of related debt – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors, grantors, contributors, or laws or regulations, of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted – This component of net assets consist of net assets of the District that are not restricted for any project or other purpose.

Employee compensated absences

Accumulated vacation, holiday benefits, sick pay and compensatory time are recorded as an expense and liability as the benefits are earned. Compensated absence liabilities are recorded as a noncurrent liability. The District is not obligated to pay for unused sick leave if an employee terminates or retires before 10 years of continuous service.

Compensated absences activity for the year ended June 30, 2003 was as follows:

<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
\$132,858	\$ -	(\$ 45,864)	\$86,994

**County of San Bernardino
Crestline Sanitation District
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *Continued*

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2: CASH AND CASH EQUIVALENTS

Cash and Cash Equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and Cash Equivalents are shown at the fair value as of June 30, 2003.

**County of San Bernardino
Crestline Sanitation District
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 3: CAPITAL ASSETS

Capital assets activities during the year were as follows:

	Balance July 1, 2002 (as restated)	Additions	Deletions	Balance June 30, 2003
Capital assets, not being depreciated:				
Land	\$ 213,308	\$ -	-	\$ 213,308
Construction in Progress	987,654	134,951	(556,145)	566,460
Total capital assets, not being depreciated	<u>1,200,962</u>	<u>134,951</u>	<u>(556,145)</u>	<u>779,768</u>
Capital assets, being depreciated:				
Land Improvements	2,926,278	556,145	-	3,482,423
Structures	5,083,460	-	-	5,083,460
Utility Plant in Service	13,196,060	-	-	13,196,060
Equipment and Vehicles	1,145,945	224,150	-	1,370,095
Total capital assets, being depreciated	<u>22,351,743</u>	<u>780,295</u>	<u>-</u>	<u>23,132,038</u>
Less accumulated depreciation for:				
Land Improvements	(792,084)	(111,710)	-	(903,794)
Structures	(2,264,872)	(98,707)	-	(2,363,579)
Utility Plant in Service	(9,392,224)	(272,193)	-	(9,664,417)
Equipment and Vehicles	(927,153)	(60,898)	-	(988,051)
Total accumulated depreciation	<u>(13,376,333)</u>	<u>(543,508)</u>	<u>-</u>	<u>(13,919,841)</u>
Total capital assets, being depreciated, net	<u>8,975,410</u>	<u>236,787</u>	<u>-</u>	<u>9,212,197</u>
Business-type activities capital assets, net	<u>\$ 10,176,372</u>	<u>\$ 371,738</u>	<u>\$ (556,145)</u>	<u>\$ 9,991,965</u>

At July 1, 2002, the County made the following restatements to capital assets:

Reclassified utility plant to land improvement	\$ 2,204,402
Reclassified utility plant accumulated depreciation to land improvement accumulated depreciation	673,292

The beginning asset balances of structures, construction in progress, equipment, and vehicles were not restated.

Construction in Progress

Construction in progress represents the following projects:

Project Title	Budget	Expenses as of 6/30/03	Projected Completion Date
Facility Expansion	\$ 865,000	\$ 260,843	2004
Huston Creek Facility Expansion	50,000	4,545	2004
Outfall System Study for handling effluent runoff	50,000	4,545	2004
Drill Well Monitor	102,437	5,098	2004
Reline Waterline	1,050,000	287,356	2004
New Telemetry Systems	148,394	4,073	2004
		<u>\$ 566,460</u>	

**County of San Bernardino
Crestline Sanitation District
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 4: LOAN PAYABLE

On January 16, 1997, the District received a revolving fund loan from The State Water Resources Control Board in the amount of \$2,159,508. The proceeds of the loan were used to fund construction of the Huston Creek treatment plant effluent storage reservoir. Of the \$2,159,508 loan amount, \$359,905 was funded by local matching funds. The loan will be repaid in March 2018. At June 30, 2003, the outstanding principal balance is \$1,417,041. A summary of loan payments for the remaining fiscal years is as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 83,619	\$ 24,356	\$ 107,975
2005	85,056	22,919	107,975
2006	86,518	21,457	107,975
2007	88,005	19,970	107,975
2008	89,518	18,457	107,975
2009-2018	984,324	95,430	1,079,754
Total	\$ 1,417,040	\$ 202,589	\$ 1,619,629

NOTE 5: LONG-TERM OBLIGATIONS

The following is a summary of long-term liabilities transactions for the year ended June 30, 2003:

	<u>Principal Balance July 1, 2002</u>	<u>Additions</u>	<u>Retirements</u>	<u>Principal Balance June 30, 2003</u>	<u>Amounts Due Within One Year</u>
Loan Payable	\$ 1,456,663	\$ 42,584	\$ (82,206)	\$ 1,417,041	\$ 107,975
Compensated Absences	132,859	-	(45,864)	86,994	-
Total long-term liabilities	\$ 1,589,522	\$ 42,584	\$ (128,070)	\$ 1,504,035	\$ 107,975

NOTE 6: RETIREMENT PLAN

Plan Description

The San Bernardino County Employees Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the Plan) operating under the California County Employees Retirement Act of 1937 (1937 Act). The plan provides retirement, death, and disability benefits to members. Although legally established as a single employer plan for the County of San Bernardino (which includes the District), the organizations listed below were added later:

**County of San Bernardino
Crestline Sanitation District
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 6: RETIREMENT PLAN - *Continued*

City of Big Bear Lake
City of Chino Hills
California State Association of Counties
San Bernardino County Law Library
Crest Forest Fire Protection District
Mojave Desert Air Quality management District (MDAQMD)
South Coast Air Quality Management District (AQMD)
Local Agency Formation commission (LAFCO)

The District and others covered under the plan are collectively referred to as the "Participating Members." The plan is governed by the San Bernardino County Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 West Hospitality Lane, San Bernardino, California 92415-0014.

Funding Policy

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary bases on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.36% - 13.46% of their annual covered salary of which the County pays approximately 7%. All employers combined are required to contribute 8.90% of the current year covered payroll. For 2003, the County's annual pension cost of \$68,361 was equal to the County's required and actual contributions. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Sections 31453 of the 1937 Act.

NOTE 7: FEDERAL AND STATE GRANTS

The District may receive funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although the District expects such amounts, if any, to be immaterial.

**County of San Bernardino
Crestline Sanitation District
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 8: SELF INSURANCE

The District participates in a Public Entity Risk Pool sponsored by the County of San Bernardino (County). The District did not incur any insurance costs or annual premiums for the year ended June 30, 2003.

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and workers' compensation claims. Public liability claims are self-insured for up to \$250,000 per occurrence. Excess insurance coverage up to \$30 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II.

Workers' compensation claims are self-insured up to \$1 million per occurrence and covered by an independent carrier for the balance up to \$2 million for employer's liability and for workers' compensation statutory liability. Property damage claims are self-insured on an occurrence basis up to \$25,000 and insured by the CSAC EIA Property Programs I and II.

The County supplements its self-insurance for medical malpractice claims with an insurance policy that provides annual coverage on an occurrence basis with deductibles of \$1,000,000 for each claim and \$5,000,000 for total annual claims. Maximum coverage under the policy is \$20 million per occurrence with an additional \$30 million in limits provided by the CSAC EIA General Liability II Program.

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance and employee dental insurance, which are accounted for in the General Fund. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies and include amounts for claims incurred but not reported and allocated loss adjustment expense. The liabilities for these claims are reported using a discounted rate of 5.00%.

The County has an investment agreement with National Westminster Bank to finance the self-insured general liability, automobile liability, workers' compensation and medical malpractice programs. Quarterly disbursements are received by the County for fund reserves and payment of claims. The County's investment in the agreements totaled \$41,124,812 at June 30, 2003.

The claims liability of \$86,764,373 reported at June 30, 2003 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk

County of San Bernardino
Crestline Sanitation District
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 8: SELF INSURANCE- *Continued*

Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the claims liability amount in fiscal years 2002 and 2003 were:

Fiscal Year	Beginning of Fiscal Year Liability (in thousands)	Current-Year Claims and Changes in Estimates (in thousands)	Claims Payments (in thousands)	Balance at Fiscal Year-End (in thousands)
2002-2003	\$95,288	\$30,685	(\$32,171)	\$93,802
2001-2002	\$61,172	\$61,832	(\$27,716)	\$95,288

NOTE 9: TRANSFERS IN/OUT

Interfund Transfers In/Out transactions are used to close out a fund, reimburse an operating fund, and transfer cash between operating funds and capital project funds. At June 30, 2003, the District made the following Interfund Transfers In and (Out):

FUND	PURPOSE	AMOUNT
EGY	To EGS operations fund for operations & maint. of the system	1,183,897
EGS	To EGY capital replacement fund for replacement/major maint.	664,769
EGS	To CIF project fund to pay Ecology Construction	19,092
EGY	To EGS operations fund to pay CIF	19,092
EGS	To CIF project fund to fund project #98008	2,200
EGY	To EGS operations fund to fund project #98008	2,200
EGS	From EGY capital replacement fund for op. & maint. of the system	(1,183,897)
EGY	From EGS operations fund for replacement/major maint.	(664,769)
CIF	From EGS capital replacement fund to cover cash shortfall	(19,092)
EGS	From EGY capital replacement fund to cover payment to CIF	(19,092)
CIF	From EGS operations fund to fund project #98008	(2,200)
EGS	From EGY capital replacement fund to fund project #98008	(2,200)
Net Interfund Transfers		\$ -

**County of San Bernardino
Crestline Sanitation District
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 9: TRANSFERS IN/OUT - *Continued*

As of June 30, 2003, in the opinion of the District's Administration, there are no outstanding matters, which would have a significant effect on the financial position of the District.

NOTE 10: NET ASSETS

Net assets represent the difference between assets and liabilities. The net asset amounts were as follows:

	<u>Enterprise Fund</u>
Invested in Capital Assets, Net of Related Debt:	
Net land, land improvements, infrastructure, construction in progress, utility plant in service, structures and improvements,	\$ 9,991,965
Less: Revolving loans payable	<u>(1,417,041)</u>
Restricted	8,574,924
Unrestricted	6,405,593
Total Net Assets	<u><u>\$ 14,980,517</u></u>

NOTE 11: PRIOR PERIOD ADJUSTMENT TO NET ASSETS

On July 1, 2002, net assets were overstated by \$42,584. The beginning net asset balance was restated with a prior period adjustment recorded to correct the loans payable balance at June 30, 2002.

The restatement of net assets is as follows:

Net assets as previously reported at June 30, 2002	\$ 14,700,414
Prior period adjustment to correct understatement of loan payable	<u>(42,584)</u>
Net assets restated at June 30, 2002	<u><u>\$ 14,657,830</u></u>

NOTE 12: SUBSEQUENT EVENTS

In late October 2003, a wildfire damaged the Cleghorn and Seeley treatment plants. At Cleghorn the roof and a power pole were destroyed. The above ground well and monitoring equipment at the Seeley plant were also destroyed. However, both plants are still operational. The estimated cost of repairs is \$71,765. Payments for damages will be fully reimbursed by the Federal Emergency Management Agency (FEMA).

**County of San Bernardino
Crestline Sanitation District
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 12: SUBSEQUENT EVENTS - *Continued*

Also, due to the extent of the fire damage in the area, property tax revenue will decline in fiscal year 2004 by an undeterminable amount. Under California law, every assessee of any taxable property whose property was damaged or destroyed by wildfire may apply for reassessment of their property as provided in Revenue and Taxation Code Section 170. Subsequent property tax bills will be postponed due to the pending reduction of the property value.

AUDITOR/CONTROLLER-RECORDER COUNTY CLERK



COUNTY OF SAN BERNARDINO

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LARRY WALKER
Auditor/Controller-Recorder
County Clerk

ELIZABETH A. STARBUCK
Assistant Auditor/Controller-Recorder
Assistant County Clerk

October 1, 2003

Tom Sutton, Interim Director
Office of Special Districts
157 W. Fifth Street, Second Floor
San Bernardino, CA 92415-0450

**Subject: MANAGEMENT LETTER – CRESTLINE SANITATION DISTRICT,
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

In compliance with Section 26909 of the California Government Code, we have audited the general purpose financial statements of the Crestline Sanitation District for the fiscal year ended June 30, 2003 and have issued our report thereon dated October 1, 2003. In planning and performing our audit of the financial statements, we considered internal controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. An audit does not include examining the effectiveness of internal controls and does not provide assurance on internal controls. However, we noted certain matters involving internal controls and their operation, which are presented for your consideration.

We do not consider the matter to be a reportable condition under the standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. We have not considered internal controls since the date of our report.

These comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve internal controls or result in other operating efficiencies and are summarized as follows.

STATUS ON PRIOR RECOMMENDATIONS

The recommendations contained in the prior audit report dated November 19, 2002 relating to Findings 1 and 2 were adopted. Our recommendations for further action regarding the recurring prior findings are shown below.

Prior Finding 3 (Recurring Since November 2002):

The District's accounts receivable system does not provide accurate information concerning the fees billed for each billing cycle.

Prior Recommendations

Immediately notify and require the software vendor to correct the system problem. Develop and implement additional procedures to systematically track, reconcile, and collect delinquent sewer fees.

Current Status

The accounts receivable software system has not been updated and is still in use. The amount the system reports as transferred to the Property Tax Roll for delinquent accounts is \$3,840; however, the actual amount transferred is \$130,301 for a difference of \$126,821. Maintaining accurate customer account records is important to maximizing cash flows. An incorrect report does not provide an accurate record of District financial information.

Further Recommendations

Follow up on stated plans to acquire a new billing system that generates correct accounts receivable reports.

Management's Response

The Board of Supervisors authorized the release of an RFP for a replacement to the water and sanitation billing system on December 10, 2002 with a deadline for response to the RFP of Monday, January 6, 2003. The SDD did not receive adequate responses, by the two vendors who met the original deadline, to thoroughly satisfy the bid process. Therefore, staff recommended that the RFP be reopened for the period of March 5, 2003 through April 16, 2003 to provide time for additional advertising and posting of the RFP to potentially receive additional responses from vendors and additional information from the responding vendors to adequately address all components of the RFP.

Tom Sutton, Interim Director
Office of Special Districts
October 1, 2003
Page 3

At this time, the RFP response, the Information Services' review, and the committee and vendor selection processes is complete. Board approval for the purchase is planned for October and implementation is planned for completion in FY 2003/04.

We wish to thank the management and staff for their full cooperation during the audit.

Respectfully submitted,

Larry Walker
Auditor/Controller-Recorder

Copies to:

County Administrative Officer
Board of Supervisors
Grand Jury (2)
Crestline Sanitation District
Special Districts
Audit file

By: _____
Carol Lombard
Internal Auditor I
Internal Audits Division

12/3/03

LDW:BKR:CL:dlp1

COUNTY OF SAN BERNARDINO
CALIFORNIA
SPECIAL DISTRICTS
AUDIT REPORT
AGUA MANSA INDUSTRIAL GROWTH ASSOCIATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

Prepared by:

Internal Audits Section
Office of the Auditor/Controller-Recorder
September 3, 2003

County of San Bernardino Special Districts
Agua Mansa Industrial Growth Association

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AUDITOR/CONTROLLER-RECORDER COUNTY CLERK



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LARRY WALKER
Auditor/Controller-Recorder
County Clerk

ELIZABETH A. STARBUCK
Assistant Auditor/Controller-Recorder
Assistant County Clerk

Independent Auditor's Report

September 3, 2003

Thomas R. Laurin, Director
Agua Mansa Industrial Growth Association
290 North "D" Street, Sixth Floor
San Bernardino, CA 92415-0400

**SUBJECT: AUDIT OF AGUA MANSA INDUSTRIAL GROWTH ASSOCIATION FOR
THE FISCAL YEAR ENDED JUNE 30, 2003**

Introductory Remarks

In compliance with Section 6505 of the California Government Code, we have completed an audit of Agua Mansa Industrial Growth Association for the fiscal year ended June 30, 2003.

Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the remaining aggregate fund information of the County of San Bernardino Agua Mansa Industrial Growth Association (AMIGA), as of and for the year ended June 30, 2003, which collectively comprise AMIGA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the AMIGA's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the minimum audit requirements and reporting guidelines for California Special Districts required by the Office of the State Controller. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and

Audrpt/Thomas R. Laurin, Director
Agua Mansa Industrial Growth Association
September 3, 2003
Page 2

significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the remaining aggregate fund information of the County of San Bernardino AMIGA, as of June 30, 2003, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and the state regulations governing Special Districts.

The County of San Bernardino's AMIGA has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Larry Walker
Auditor/Controller-Recorder

Quarterly - Copies to:
County Administrative Office
Board of Supervisors
Grand Jury (2)

By:

Barbara K. Redding, CPA, CGFM
Internal Audits Manager

Audit File (3)

Date Report Distributed: 10/27/03

LDW:BKR:RAT:spr.4

County of San Bernardino
Agua Mansa Industrial Growth Association
Statement of Net Assets
June 20, 2003

	<u>Administration (NSD)</u>	<u>Administration (NSF)</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 166,470	\$ 316,849	\$ 483,319
Receivables:			
Interest	932	1,788	2,720
Due from other governments	12,000	-	12,000
Total current assets	<u>179,402</u>	<u>318,637</u>	<u>498,039</u>
 Total assets	 <u><u>\$ 179,402</u></u>	 <u><u>\$ 318,637</u></u>	 <u><u>\$ 498,039</u></u>
 LIABILITIES			
Current liabilities:			
Accounts Payable	\$ 4,001	\$ 40,880	\$ 44,881
Deposit		100,000	100,000
Total current liabilities	<u>4,001</u>	<u>140,880</u>	<u>144,881</u>
 Total liabilities	 <u>4,001</u>	 <u>140,880</u>	 <u>144,881</u>
 NET ASSETS			
Unrestricted	145,401	127,757	273,158
Restricted	<u>30,000</u>	<u>50,000</u>	<u>80,000</u>
Total net assets	<u>175,401</u>	<u>177,757</u>	<u>353,158</u>
 Total liabilities and net assets	 <u><u>\$ 179,402</u></u>	 <u><u>\$ 318,637</u></u>	 <u><u>\$ 498,039</u></u>

The notes to the financial statements are an integral part of this statement.

County of San Bernardino
Agua Mansa Industrial Growth Association
Statement of Revenues, Expenses, and Changes in Fund Net Assets
For the Year Ended June 30, 2003

	Administration (NSD)	Administration (NSF)	Total
OPERATING REVENUES			
Contributions	\$ 30,000	\$ 50,000	\$ 80,000
Other	733	-	733
Total operating revenues	<u>30,733</u>	<u>50,000</u>	<u>80,733</u>
OPERATING EXPENSES			
Service and supplies	3,113	8,400	11,513
Professional services	2,852	126,512	129,364
Other operating expenses	7,412	-	7,412
Total operating expenses	<u>13,377</u>	<u>134,912</u>	<u>148,289</u>
Operating income (loss)	<u>17,356</u>	<u>(84,912)</u>	<u>(67,556)</u>
NONOPERATING REVENUES (EXPENSES)			
Interest	4,266	7,977	12,243
Total nonoperating revenues (expenses)	<u>4,266</u>	<u>7,977</u>	<u>12,243</u>
Change in net assets	21,622	(76,935)	(55,313)
Net assets, July 1, 2002	<u>153,779</u>	<u>254,692</u>	<u>408,471</u>
Net assets, June 30, 2003	<u><u>\$ 175,401</u></u>	<u><u>\$ 177,757</u></u>	<u><u>\$ 353,158</u></u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
 Agua Mansa Industrial Growth Association
 Statement of Cash Flows
 For the Year Ended June 30, 2003**

Enterprise Fund - Administration (NSD)

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from member dues	\$ 54,000
Other	733
Payments to suppliers for goods and services	(5,603)
Other payments	<u>(3,790)</u>
Net cash provided by operating activities	<u>45,340</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest	4,532
Net cash provided by investing activities	<u>4,532</u>
Net increase in cash and cash equivalents	49,872
Balance-beginning of the year	<u>116,598</u>
Balance-end of the year	<u><u>\$ 166,470</u></u>

Reconciliation of operating income (loss) to net cash provided by operating activities:

Operating income (loss)	\$ 17,356
Adjustments to reconcile operating income to net cash provided by operating activities:	
Change in assets and liabilities:	
Due from other governments	24,000
Accounts and other payables	<u>3,984</u>
Net cash provided by operating activities	<u><u>\$ 45,340</u></u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
Agua Mansa Industrial Growth Association
Statement of Cash Flows
For the Year Ended June 30, 2003**

Enterprise Fund - Community Facilities District (NSF)

CASH FLOWS FROM OPERATING ACTIVITIES

Receipt from special assessments	\$ 50,000
Deposit	100,000
Payments to suppliers for goods and services	<u>(96,026)</u>
Net cash used by operating activities	<u>53,974</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest	8,636
Net cash provided by investing activities	<u>8,636</u>
Net increase in cash and cash equivalents	62,610
Balances-beginning of the year	<u>254,239</u>
Balances-end of the year	<u><u>\$ 316,849</u></u>

Reconciliation of operating income (loss) to net cash provided by operating activities:

Operating income (loss)	\$ (84,912)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Change in assets and liabilities:	
Accounts and other payables	38,886
Deposit	<u>100,000</u>
Net cash provided by operating activities	<u><u>\$ 53,974</u></u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
Agua Mansa Industrial Growth Association
Statement of Fiduciary Net Assets
Fiduciary Funds
For the Fiscal Year Ended June 30, 2003**

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ 27,959
Interest receivable	<u>300</u>
Total current assets	<u><u>\$ 28,259</u></u>
 LIABILITIES	
Due to bondholders	<u>\$ 28,259</u>
Total liabilities	<u><u>\$ 28,259</u></u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
Agua Mansa Industrial Growth Association
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Agua Mansa Industrial Growth Association (AMIGA) was established under a Joint Powers Agreement by the County of San Bernardino, the County of Riverside, the City of Colton, the City of Rialto, and the City of Riverside (the Jurisdictions) on May 17, 1985. The Jurisdictions utilize joint powers to manage, coordinate, market, and administer economic development programs and projects in the AMIGA enterprise zone area. The enterprise zone comprises specific areas within each of the six jurisdictions.

AMIGA is authorized and empowered to contract with all the other parties for the joint exercise of powers under Article I, Chapter 5, Division 7, Title 1 of the Government Code of the State of California, Sections 6500 et seq. AMIGA is self-governed by an Executive Committee which is comprised of one member of each jurisdiction, who is appointed by the Jurisdiction. San Bernardino County is the administrative agency and Riverside County is the Marketing agency for the jurisdictions.

The Jurisdictions utilize joint powers to manage, coordinate, market, and administer economic development programs and projects in the AMIGA enterprise zone area. The enterprise zone comprises specific areas within each of the six jurisdictions.

AMIGA is financed by the mandatory and voluntary contributions assessed to each Jurisdiction. The Jurisdictions are assessed a \$6,000 mandatory contribution each fiscal year. Voluntary contributions are paid by the jurisdictions for special projects as set forth in Article X of the joint powers agreement. Additional financing is generated through revenue bonds, for which the jurisdictions shall have no obligation or liability.

Fund financial statements

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Separate financial statements are provided for proprietary funds and fiduciary funds.

County of San Bernardino
Agua Mansa Industrial Growth Association
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Measurement focus, basis of accounting, and financial statement presentation

The propriety fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of AMIGA's enterprise funds is mandatory and voluntary contributions from the jurisdictions. Operating expenses for enterprise funds include the cost of services and supplies and administrative expenses.

All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Special assessment receivables due within the current fiscal period are considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Agency funds are used to account for assets held by the District as an agent for individuals, private organizations, other governments and/or other funds. The funds

**County of San Bernardino
Agua Mansa Industrial Growth Association
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

are custodial in nature (assets equal liabilities) and do not involve measurement of the results of operations.

The modified accrual basis of accounting is used for the agency fund. The fund is used to account for the accumulation of resources for, and payment of, the bonds issued under the Mello-Roos Community Facilities Act of 1982 to stimulate private investment in business and industrial growth in economically depressed areas within the boundaries of AMIGA's six jurisdictions.

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." All accounts receivable are shown net of an allowance for uncollectibles when applicable.

Stewardship, compliance and accountability

Budgetary information

In accordance with provisions of Section 29000 - 29143 of the Government code of the State of California, commonly known as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for capital assets within each fund.

NOTE 2: CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is

**County of San Bernardino
Agua Mansa Industrial Growth Association
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 2: CASH AND CASH EQUIVALENTS - *Continued*

deposited to AMIGA's account based upon AMIGA's average daily deposit balance during the allocation period. Cash and Cash Equivalents are shown at the fair value as of June 30, 2003. Interest earned on pooled investments is deposited to AMIGA's account based upon AMIGA's average daily deposit balance during the allocation period. Cash and Cash Equivalents are shown at the fair value as of June 30, 2003. As of June 30, 2003, in the opinion of the management of AMIGA, there are no outstanding matters, which would have a significant effect on the financial position of AMIGA.

NOTE 3: SPECIAL ASSESSMENT ACCOUNTING – 1982 ACT BONDS

In February 1992, bonds were issued on behalf of the Agua Mansa Community District 89-1 (the District) under the Mello-Roos Community Facilities Act of 1982 in the amount of \$16,365,000. The Bonds are not the liability of the District and are payable from the net proceeds, after payment of certain administrative expenses, from an annual Special Tax that is levied and secured by a continuing lien against all nonexempt property located within the District. In the event that an entity/business within the enterprise zone defaults on their property taxes, American Express will guarantee payment to the District for the taxes. US Bank is the fiscal agent of the Bond proceeds.

In addition, the Mello-Roos bonds are not a liability to the District and, as such, do not appear in the accompanying general purpose financial statements. The balance of the bonds, as of June 30, 2003, is \$15,180,000.

NOTE 4: DONATED SERVICES

Each Jurisdiction is required to contribute office and personnel services pursuant to Article VIII of the Joint Powers Agreement. The value of these services is not reflected in the financial statements.

NOTE 5: SUBSEQUENT EVENTS

Subsequent to the fiscal year end June 30, 2003, AMIGA completed the refinance of the Mello-Roos bonds. Residual equity from interest accrued from property tax levies in the amount of \$27,959 was transferred from AMIGA Special Tax Assessment to AMIGA Mello-Roos after the bond defeasance.

**County of San Bernardino
Agua Mansa Industrial Growth Association
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 6: RESTRICTED ASSETS

Certain proceeds of the AMIGA's enterprise funds are classified as restricted assets on the statement of net assets because their use is limited by the governing body of AMIGA. The "Administration (NSD)" account is used to report resources set aside for the administrative costs of AMIGA. The "Administration (NSF)" account is used to report proceeds of the special tax revenue bond issuances for which a portion of the proceeds are set aside for the administration of the bonds.

NOTE 7: CONTRIBUTIONS

AMIGA consists of five jurisdictions: County of San Bernardino, the County of Riverside, the City of Colton, the City of Rialto, and the City of Riverside (the Jurisdictions). On July 1st, each jurisdiction contributes a mandatory contribution of \$6,000. The mandatory contribution shall be used only for those administrative and other matters of general benefit to all jurisdictions.

AUDITOR/CONTROLLER-RECORDER COUNTY CLERK



COUNTY OF SAN BERNARDINO

AUDITOR/CONTROLLER • 222 West Hospitality Lane, Fourth Floor
San Bernardino, CA 92415-0018 • (909) 387-8322 • Fax (909) 386-8830

RECORDER • COUNTY CLERK • 222 West Hospitality Lane, First Floor
San Bernardino, CA 92415-0022 • (909) 387-8306 • Fax (909) 386-8940

LARRY WALKER
Auditor/Controller-Recorder
County Clerk

ELIZABETH A. STARBUCK
Assistant Auditor/Controller-Recorder
Assistant County Clerk

October 9, 2003

Thomas R. Laurin, Director
Agua Mansa Industrial Growth Association
Economic and Community Development
290 North "D" Street, Sixth Floor
San Bernardino, CA 92415-0040

**Subject: MANAGEMENT LETTER – JOINT POWERS AUTHORITY –AGUA
MANSA INDUSTRIAL GROWTH ASSOCIATION- FOR THE FISCAL
YEAR ENDED JUNE 30, 2003**

Introductory Remarks

In compliance with Section 6505 of the California Government Code, we have completed an audit of Agua Mansa Industrial Growth Association (AMIGA), for the fiscal year ended June 30, 2003.

Auditor's Report

We have audited the accompanying balance sheet of AMIGA as of June 30, 2003, and the related financial statements for the year then ended. These financial statements are the responsibility of AMIGA's management. Our responsibility is to express an opinion on these financial statements based on our audit. As part of our audit, we made a study of the District's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. The purpose of our study and evaluation was to determine the nature, timing and extent of the auditing procedures necessary for expressing an opinion on the financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole.

Nature of Internal Control

The management of the District is responsible for establishing and maintaining the system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related

costs of control procedures. The objectives of a system of internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation, made for the limited purpose described in the first paragraph, would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting controls of the District. However, our study and evaluation disclosed no condition that we believe to be a material weakness.

This report is intended solely for the use of management and the Board of Supervisors and should not be used for any other purpose.

FINDINGS AND RECOMMENDATIONS

Finding One: Internal controls over cash receipts need to be improved.

Based on testing of the accounts receivables, the following was determined:

- A monthly reconciliation of the FAS FZ370 report to the Bank Acknowledgement and Deposit Distribution (D deposit) is not conducted as prescribed in the Internal Controls and Cash Manual, which states the department should reconcile their own records of all deposits and distributions made to the FZ370 report at the end of each month. Furthermore, no written procedures exist regarding the deposit reconciliation process. In order to ensure accurate receipt and distribution of bank deposits, AMIGA should complete monthly reconciliations.
- The fiscal section maintains two cash receipts logs. The first cash receipt log is used to log the receipt of checks received by the receptionist. The second log serves as a control for receipting cash into the fiscal section. Procedures to reconcile the two cash receipt logs are in place; however, the reconciliation is not completed regularly as prescribed by the department. Furthermore, the fiscal section is not consistent in reconciling the D Deposit to the second cash receipts log.

Recommendations

Develop written procedures to reconcile the FAS FZ370 report to the Bank Acknowledgement and Deposit Distributions (D Deposit) as outlined in the County's Internal Controls and Cash Manual, Section 7-6.

In addition, perform a supervisory review of the reconciliation of the D Deposit, cash receipt logs, and the FAS FZ370 report, and evidence approval by initialing the D Deposit. Reconciliation procedures should include:

- Verifying each line item on the D Deposit to the FAS Online General Ledger Inquiry (OLGL) Table to ensure that each distribution has been applied to the correct fund.
- Reconcile the cash receipt logs, and then reconcile the D Deposit to the second cash receipts log as prescribed by department policy to ensure agreement.

Management's Response

On November 14, 2003, new procedures for reconciling the FAS FZ 370 Report with the bank deposit slips and the "D" Deposit slips were developed and implemented as follows:

The Accountant will reconcile the two cash logs and initial the logs as well as the "D" Deposit slip, by the signature line. The Administrative Services Supervisor will reconcile the "D" Deposit to the cash receipts and initial the "D" Deposit slip by the signature line. The Fiscal Clerk II will verify the deposits by line with the FAS Online General Ledger Inquiry (OLGL) Table to ensure that each distribution has been applied to the correct fund on a daily basis.

We wish to thank the management and staff for their full cooperation during the audit.

Respectfully submitted,

Larry Walker
Auditor/Controller-Recorder

Copies to:
County Administrative Officer
Board of Supervisors
Grand Jury (2)
AMIGA
Audit file

By: _____
RoseAnn Trujillo
Internal Auditor II
Internal Audits Section

Date Distributed: 11/19/03

**COUNTY OF SAN BERNARDINO
SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 9
PHELAN**

REPORT ON AUDIT

JUNE 30, 2003

**County of San Bernardino Special Districts
County Service Area No. 9
Phelan
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ROGERS, ANDERSON, MALODY & SCOTT, LLP

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JANET M. VRYHEID, C.P.A.

Board of Supervisors
County of San Bernardino
County of San Bernardino Special
District County Service Area
No. 9 - Phelan

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities and each major fund of the County of San Bernardino Special District County Service Area No. 9 - Phelan (CSA), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2003, which collectively comprise the CSA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the CSA's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the County of San Bernardino Special District County Service Area No. 9 - Phelan, as of June 30, 2003, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying budgetary comparison information on page 16 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

MEMBERS

AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
PCPS THE AICPA ALLIANCE FOR CPA FIRMS

CALIFORNIA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

VANIR TOWER • 290 NORTH "D" STREET • SUITE 300
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E-mail: rams@ramscpa.net

The County of San Bernardino Special District County Service Area No. 9 - Phelan has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

September 26, 2003

County of San Bernardino Special Districts
County Service Area No. 9 - Phelan
Statement of Net Assets
June 30, 2003

ASSETS

Cash and cash equivalents	\$ 339,117
Interest receivable	1,960
Taxes receivable	3,786
Due from other governments	9,146
Capital assets, net of depreciation	<u>56,517</u>

Total Assets	<u>410,526</u>
--------------	----------------

LIABILITIES

Salaries and benefits payable	<u>369</u>
-------------------------------	------------

NET ASSETS

Invested in capital assets	56,517
Unrestricted	<u>353,640</u>

Total Net Assets	<u><u>\$ 410,157</u></u>
------------------	--------------------------

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 9 - Phelan
Statement of Activities
For the Year Ended June 30, 2003

EXPENSES

Salaries and benefits	\$ 31,459
Services and supplies	26,859
Total Program Expenses	<u>58,318</u>

PROGRAM REVENUES

Net Program (Expense)	<u>(58,318)</u>
-----------------------	-----------------

GENERAL REVENUES

Property taxes	27,564
Other taxes	1,081
State assistance	320,601
Investment earnings	5,060
Intergovernmental	3,806
Other	442
Total General Revenues	<u>358,554</u>

Change in Net Assets	300,236
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Net Assets - beginning	<u>109,921</u>
------------------------	----------------

Net Assets - ending	<u>\$ 410,157</u>
---------------------	-------------------

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 9 - Phelan
Balance Sheet
Governmental Funds
June 30, 2003

	SPECIAL REVENUE FUND General (SFP)	CAPITAL PROJECTS FUND New Park (CLC)	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 330,506	\$ 8,611	\$ 339,117
Interest receivable	1,878	82	1,960
Taxes receivable	1,555	-	1,555
Due from other funds	10,018	-	10,018
Total Assets	<u><u>\$ 343,957</u></u>	<u><u>\$ 8,693</u></u>	<u><u>\$ 352,650</u></u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Salaries and benefits payable	\$ 369	\$ -	\$ 369
Due to other funds	872	-	872
Total Liabilities	<u>1,241</u>	<u>-</u>	<u>1,241</u>
Fund Balances:			
Unreserved:			
Undesignated	<u>342,716</u>	<u>8,693</u>	<u>351,409</u>
Total Fund Balances	<u>342,716</u>	<u>8,693</u>	<u>351,409</u>
Total Liabilities and Fund Balances	<u><u>\$ 343,957</u></u>	<u><u>\$ 8,693</u></u>	

Amounts reported for *governmental activities* in the statement of net assets (Exhibit A) are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

56,517

Some revenues will not be collected for several months after year-end, they are not considered "available" revenue in the governmental funds.

Property tax revenue

2,231

Net assets of governmental funds

\$ 410,157

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 9 - Phelan
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2003

	SPECIAL REVENUE FUND General (SFP)	CAPITAL PROJECTS FUND New Park (CLC)	Total Governmental Funds
REVENUES			
Property taxes	\$ 27,540	\$ -	\$ 27,540
Other taxes	1,081	-	1,081
State assistance	320,601	-	320,601
Investment earnings	4,850	210	5,060
Other	442	-	442
Total Revenues	<u>354,514</u>	<u>210</u>	<u>354,724</u>
EXPENDITURES			
Salaries and benefits	31,459	-	31,459
Services and supplies	26,859	-	26,859
Capital outlay:			
Land	-	43,026	43,026
Land improvements	-	13,491	13,491
Total Expenditures	<u>58,318</u>	<u>56,517</u>	<u>114,835</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>296,196</u>	<u>(56,307)</u>	<u>239,889</u>
OTHER FINANCING SOURCES (USES)			
Transfer in	3,806	65,000	68,806
Transfer out	(65,000)	-	(65,000)
Total Other Financing Sources (Uses)	<u>(61,194)</u>	<u>65,000</u>	<u>3,806</u>
Net Change in Fund Balances	235,002	8,693	243,695
Fund Balances - beginning	<u>107,714</u>	<u>-</u>	<u>107,714</u>
Fund Balances - ending	<u>\$ 342,716</u>	<u>\$ 8,693</u>	<u>\$ 351,409</u>

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 9 - Phelan
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances of Governmental Funds to the
Statement of Activities
For the Year Ended June 30, 2003

Net Change in Fund Balances - Total Governmental Funds	\$	243,695
--	----	---------

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation expense in the current period.

56,517

Some revenues will not be collected for several months after year-end, they are not considered "available" revenue in the governmental funds.

Property tax revenue - current year	2,231	
Property tax revenue - prior year	(2,207)	

2,231
(2,207)

Change in net assets of governmental activities	\$	300,236
---	----	---------

County of San Bernardino Special Districts
County Service Area No. 9 - Phelan
Notes to Financial Statements
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

The County Service Area (CSA) No. 9 was established by an act of the Board of Supervisors of the County of San Bernardino (the County) on January 2, 1946 under Section 4700 of the State Health & Safety Code to maintain 84 streetlights. On December 17, 1997, the Board of Supervisors approved the extension of park and recreation and road maintenance powers.

The CSA is a component unit of the County of San Bernardino and is governed by the actions of the County Board of Supervisors.

The accompanying financial statements reflect only the accounts of the County Service Area No. 9 of the County of San Bernardino (County) and are not intended to present the financial position of the County taken as a whole.

Because the CSA meets the reporting entity criteria established by the Governmental Accounting Standards Board (GASB), the CSA's financial statements have also been included in the Comprehensive Annual Financial Report of the County as a "component unit" for the fiscal year ended June 30, 2003.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the reporting entity. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Currently, the CSA does not have any proprietary or fiduciary fund types. Major individual governmental funds are reported as separate columns in the fund financial statements.

County of San Bernardino Special Districts
County Service Area No. 9 - Phelan
Notes to Financial Statements
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *special revenue fund* labeled "General" is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *capital projects fund* labeled "New Park" is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

County of San Bernardino Special Districts
County Service Area No. 9 - Phelan
Notes to Financial Statements
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Deposits and investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." Currently, the CSA does not have any business-type activities.

Property taxes

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

Inventories and prepaid items

Inventories, if any, are valued at cost using the first-in/first-out method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of two years. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

County of San Bernardino Special Districts
County Service Area No. 9 - Phelan
Notes to Financial Statements
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	40 - 60
Structures and improvements	5 - 40
Equipment and vehicles	4 - 15

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Stewardship, compliance and accountability

A. Budgetary information

In accordance with provisions of Section 29000 - 29143 of the Government code of the State of California, commonly known as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for fixed assets within each fund.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the Special District's Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

B. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitment will be reappropriated and honored during the subsequent year.

County of San Bernardino Special Districts
County Service Area No. 9 - Phelan
Notes to Financial Statements
June 30, 2003

NOTE 2: CASH AND DEPOSITS

Cash and Cash Equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and Cash Equivalents are shown at the fair value as of June 30, 2003.

NOTE 3: CAPITAL ASSETS

Capital asset activity for year ended June 30, 2003 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Construction in progress	\$ -	\$ 56,517	\$ -	\$ 56,517
Total capital assets, not being depreciated	<u>-</u>	<u>56,517</u>	<u>-</u>	<u>56,517</u>
 Governmental activities capital assets, net	 <u>\$ -</u>	 <u>\$ 56,517</u>	 <u>\$ -</u>	 <u>\$ 56,517</u>

NOTE 4: RETIREMENT PLAN

Plan Description

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the "Plan") operating under the California County Employees Retirement Act of 1937 ("1937 Act"). It provides retirement, death, and disability benefits to members. Although legally established as a single employer plan, the City of Big Bear Lake, the City of Chino Hills, the California State Association of Counties, the San Bernardino County Law Library, Crest Forest Fire Protection District, Mojave Desert Air Quality Management District (MDAQMD) and the South Coast Air Quality Management District (the "AQMD"), were later included, along with the County of San Bernardino (the "County"), and are collectively referred to as the "Participating Members". The plan is governed by the San Bernardino Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 W Hospitality Lane - 3rd floor, San Bernardino, California 92415-0014.

County of San Bernardino Special Districts
County Service Area No. 9 - Phelan
Notes to Financial Statements
June 30, 2003

NOTE 4: RETIREMENT PLAN (continued)

Fiduciary Responsibility

The Retirement Association is controlled by its own board, the Retirement Board, which acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. The Retirement Association publishes its own Comprehensive Annual Financial Report and receives a separate independent audit. The Retirement Association is also a legally separate entity from the County and not a component unit. For these reasons, the County's Comprehensive Annual Financial Report excludes the Retirement Association pension trust fund as of June 30, 2003.

Funding Policy

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary bases on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.36% - 13.46% of their annual covered salary of which the County pays approximately 7%. All employers combined are required to contribute 8.90% of the current year covered payroll. For 2003, the County's annual pension cost of \$68,361,000 was equal to the County's required and actual contributions. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Sections 31453 of the 1937 Act.

The following table shows the County's required contributions and percentage contributed, for the current year and two preceding years:

<u>Year Ended June 30,</u>	<u>Annual Pension Cost (in thousands)</u>	<u>Percentage Contributed</u>
2001	58,572	100%
2002	69,245	100%
2003	68,361	100%

The County, along with the AQMD, issued Pension Refunding Bonds (the "Bonds") in November 1995 with an aggregate amount of \$420,527,000. These Bonds were issued to allow the County and the AQMD to refinance each of their unfunded accrued actuarial liabilities with respect to retirement benefits for their respective employees. The Bonds are the obligations of the employers participating in the Plan and the assets of the Plan do not secure the Bonds. The County's portion of the bond issuance was \$386,266,000. The current amount outstanding at June 30, 2003 is \$430,898,000.

County of San Bernardino Special Districts
County Service Area No. 9 - Phelan
Notes to Financial Statements
June 30, 2003

NOTE 5: FEDERAL AND STATE GRANTS

From time to time the CSA may receive funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds.

The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although the CSA expects such amounts, if any, to be immaterial.

NOTE 6: RISK MANAGEMENT

The CSA participates in a Public Entity Risk Pool sponsored by the County of San Bernardino (County). Insurance premiums totaled \$647 for the year ended June 30, 2003.

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and workers' compensation claims. Public liability claims are self-insured for up to \$250,000 per occurrence. Excess insurance coverage up to \$30 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II.

Workers' compensation claims are self-insured up to \$1 million per occurrence and covered by an independent carrier for the balance up to \$2 million for employer's liability and for workers' compensation statutory liability. Property damage claims are self-insured on an occurrence basis up to \$25,000 and insured by the CSAC EIA Property Programs I and II.

The County supplements its self-insurance for medical malpractice claims with an insurance policy that provides annual coverage on an occurrence basis with deductibles of \$1,000,000 for each claim and \$5,000,000 for total annual claims. Maximum coverage under the policy is \$20 million per occurrence with an additional \$30 million in limits provided by the CSAC EIA General Liability II Program.

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance and employee dental insurance, which are accounted for in the General Fund. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies and include amounts for claims incurred but not reported and allocated loss adjustment expense. The liabilities for these claims are reported using a discounted rate of 5.00%.

The County has an investment agreement with National Westminster Bank to finance the self-insured general liability, automobile liability, workers' compensation and medical malpractice programs. Quarterly disbursements are received by the County for fund reserves and payment of claims. The County's investment in the agreements totaled \$41,124,812 at June 30, 2003.

County of San Bernardino Special Districts
County Service Area No. 9 - Phelan
Notes to Financial Statements
June 30, 2003

NOTE 6: RISK MANAGEMENT (continued)

The claims liability of \$86,764,373 reported at June 30, 2003 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the claims liability amount in fiscal years 2002 and 2003 were:

<u>Fiscal Year</u>	<u>Beginning of Fiscal Year Liability (in thousands)</u>	<u>Current Year Claims and Changes in Estimates (in thousands)</u>	<u>Claims Payments (in thousands)</u>	<u>End of Fiscal Year Liability (in thousands)</u>
2002 - 2003	\$ 95,288	\$ 23,647	\$ (32,171)	\$ 86,764
2001 - 2002	\$ 61,172	\$ 61,832	\$ (27,716)	\$ 95,288

NOTE 7: TRANSFERS IN/OUT

Interfund transfers are transactions used to close out a fund, reimburse an operating fund, and transfer cash between operating funds and capital projects funds. At June 30, 2003, the CSA made the following interfund transfers in and out:

	<u>Transfers in:</u> <u>New Park</u>
Transfers out:	
General (SFP)	<u>\$ 65,000</u>
Total	<u><u>\$ 65,000</u></u>

NOTE 8: CONTINGENCIES

As of June 30, 2003, in the opinion of the CSA Administration, there are no outstanding matters, which would have a significant effect on the financial position of the CSA.

NOTE 9: PROPOSITION 111 APPROPRIATION LIMITS

Proposition 111, which added Article XIIIB to the State Constitution, establishes limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2002-2003 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

Required Supplementary Information
County of San Bernardino Special Districts
County Service Area No. 9 - Phelan
Budgetary Comparison Schedule - Special Revenue Fund (General)
For the Year Ended June 30, 2003

	Special Revenue Fund			
	General (SFP)			
	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
REVENUES				
Property taxes	\$ 27,657	\$ 27,657	\$ 27,540	\$ (117)
Other taxes	-	-	1,081	1,081
State assistance	400,000	400,000	320,601	(79,399)
Investment earnings	5,000	5,000	4,850	(150)
Service fees	500	500	-	(500)
Other	-	-	442	442
Total Revenues	433,157	433,157	354,514	(78,643)
EXPENDITURES				
Salaries and benefits	32,193	44,443	31,459	12,984
Services and supplies	50,322	50,322	26,859	23,463
Reserves and contingencies	33,999	33,999	-	33,999
Total Expenditures	116,514	128,764	58,318	70,446
Excess of Revenues Over Expenditures	316,643	304,393	296,196	(8,197)
OTHER FINANCING SOURCES (USES)				
Transfer in	25,643	25,643	3,806	(21,837)
Transfer out	(450,000)	(437,750)	(65,000)	372,750
Total Other Financing Sources (Uses)	(424,357)	(412,107)	(61,194)	350,913
Net Change in Fund Balances	\$ (107,714)	\$ (107,714)	235,002	\$ 342,716
Fund Balances - beginning			107,714	
Fund Balances - ending			\$ 342,716	

**COUNTY OF SAN BERNARDINO
SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 17
APPLE VALLEY**

REPORT ON AUDIT

JUNE 30, 2003

**County of San Bernardino Special Districts
County Service Area No. 17
Apple Valley
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ROGERS, ANDERSON, MALODY & SCOTT, LLP

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Board of Supervisors
County of San Bernardino
County of San Bernardino Special
District County Service Area
No. 17 - Apple Valley

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying basic financial statements of the County of San Bernardino Special District County Service Area No. 17 - Apple Valley (CSA), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the CSA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the County of San Bernardino Special District County Service Area No. 17 - Apple Valley, as of June 30, 2003, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying budgetary comparison information on page 16 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

MEMBERS

AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
PCPS THE AICPA ALLIANCE FOR CPA FIRMS

CALIFORNIA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

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The County of San Bernardino Special District County Service Area No. 17 - Apple Valley has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

September 26, 2003

County of San Bernardino Special Districts
County Service Area No. 17 - Apple Valley
Statement of Net Assets
June 30, 2003

ASSETS

Cash and cash equivalents	\$ 488,596
Interest receivable	2,407
Taxes receivable	<u>12,210</u>
Total Assets	<u>503,213</u>

LIABILITIES

Due to other governments	<u>5,930</u>
--------------------------	--------------

NET ASSETS

Unrestricted	<u>497,283</u>
Total Net Assets	<u><u>\$ 497,283</u></u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts
County Service Area No. 17 - Apple Valley
Statement of Activities
For the Year Ended June 30, 2003**

EXPENSES

Salaries and benefits	\$ 113,054
Services and supplies	27,805
Total Program Expenses	<u>140,859</u>

PROGRAM REVENUES

Net Program Expense	<u>(140,859)</u>
---------------------	------------------

GENERAL REVENUES

Property taxes	88,444
Other taxes	3,532
State assistance	1,932
Investment earnings	13,284
Other	2,285
Total General Revenues	<u>109,477</u>

Change in Net Assets	(31,382)
----------------------	----------

Net Assets - beginning	<u>528,665</u>
------------------------	----------------

Net Assets - ending	<u><u>\$ 497,283</u></u>
---------------------	--------------------------

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 17 - Apple Valley
Balance Sheet
Governmental Fund
June 30, 2003

	SPECIAL REVENUE FUND <hr/> General (SFV) <hr/>
ASSETS	
Cash and cash equivalents	\$ 488,596
Interest receivable	2,407
Taxes receivable	4,998
	<hr/>
Total Assets	\$ 496,001
	<hr/>
LIABILITIES AND FUND BALANCES	
Liabilities:	
Due to other governments	\$ 5,930
	<hr/>
Total Liabilities	5,930
	<hr/>
Fund Balances:	
Unreserved:	
Undesignated	490,071
	<hr/>
Total Fund Balances	490,071
	<hr/>
Total Liabilities and Fund Balances	\$ 496,001
	<hr/>
Total fund balances - governmental fund	\$ 490,071
Amounts reported for <i>governmental activities</i> in the statement of net assets (Exhibit A) are different because:	
Some revenues will not be collected for several months after year-end, they are not considered "available" revenue in the governmental fund.	
Property tax revenue	7,212
	<hr/>
Net assets of governmental fund	\$ 497,283
	<hr/>

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 17 - Apple Valley
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Fund
For the Year Ended June 30, 2003

	SPECIAL REVENUE FUND <hr/> General (SFV) <hr/>
REVENUES	
Property taxes	\$ 88,320
Other taxes	3,532
State assistance	1,932
Investment earnings	13,284
Other	2,285
	<hr/>
Total Revenues	109,353
	<hr/>
EXPENDITURES	
Salaries and benefits	113,054
Services and supplies	27,805
	<hr/>
Total Expenditures	140,859
	<hr/>
Net Change in Fund Balances	(31,506)
Fund Balances - beginning	521,577
	<hr/>
Fund Balances - ending	\$ 490,071
	<hr/>

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 17 - Apple Valley
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances of Governmental Fund to the
Statement of Activities
For the Year Ended June 30, 2003

Net Change in Fund Balances - Total Governmental Fund	\$	(31,506)
---	----	----------

Amounts reported for governmental activities in the statement of activities
are different because:

Some revenues will not be collected for several months after year-end,
they are not considered "available" revenue in the governmental fund.

Property tax revenue - current year	7,212	
Property tax revenue - prior year	(7,088)	

Change in net assets of governmental activities	\$	<u>(31,382)</u>
---	----	-----------------

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts
County Service Area No. 17 - Apple Valley
Notes to Financial Statements
June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

The County Service Area (CSA) No. 17 was established by an act of the Board of Supervisors of the County of San Bernardino (the County) on January 2, 1946 under Section 4700 of the State Health & Safety Code to provide financing for the maintenance of 35 streetlights.

The CSA is a component unit of the County of San Bernardino and is governed by the actions of the County Board of Supervisors. -

The accompanying financial statements reflect only the accounts of the County Service Area No. 17 of the County of San Bernardino (County) and are not intended to present the financial position of the County taken as a whole.

Because the CSA meets the reporting entity criteria established by the Governmental Accounting Standards Board (GASB), the CSA's financial statements have also been included in the Comprehensive Annual Financial Report of the County as a "component unit" for the fiscal year ended June 30, 2003.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the reporting entity. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Currently, the CSA does not have any proprietary or fiduciary fund types. Major individual governmental funds are reported as separate columns in the fund financial statements.

County of San Bernardino Special Districts
County Service Area No. 17 - Apple Valley
Notes to Financial Statements
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental fund:

The *special revenue fund* labeled "General" is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

**County of San Bernardino Special Districts
County Service Area No. 17 - Apple Valley
Notes to Financial Statements
June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Deposits and investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." Currently, the CSA does not have any business-type activities.

Property taxes

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

Inventories and prepaid items

Inventories, if any, are valued at cost using the first-in/first-out method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of two years. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

**County of San Bernardino Special Districts
County Service Area No. 17 - Apple Valley
Notes to Financial Statements
June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government is depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Infrastructure	40 - 60
Structures and improvements	5 - 40
Equipment and vehicles	4 - 15

Currently, the CSA does not have any capital assets.

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Stewardship, compliance and accountability

A. Budgetary information

In accordance with provisions of Section 29000 - 29143 of the Government Code of the State of California, commonly known as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for fixed assets within each fund.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the Special District's Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

**County of San Bernardino Special Districts
County Service Area No. 17 - Apple Valley
Notes to Financial Statements
June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

NOTE 2: CASH AND DEPOSITS

Cash and Cash Equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and Cash Equivalents are shown at the fair value as of June 30, 2003.

NOTE 3: RETIREMENT PLAN

Plan Description

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the "Plan") operating under the California County Employees Retirement Act of 1937 ("1937 Act"). It provides retirement, death, and disability benefits to members. Although legally established as a single employer plan, the City of Big Bear Lake, the City of Chino Hills, the California State Association of Counties, the San Bernardino County Law Library, Crest Forest Fire Protection District, Mojave Desert Air Quality Management District (MDAQMD) and the South Coast Air Quality Management District (the "AQMD"), were later included, along with the County of San Bernardino (the "County"), and are collectively referred to as the "Participating Members". The plan is governed by the San Bernardino Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 W Hospitality Lane - 3rd floor, San Bernardino, California 92415-0014.

Fiduciary Responsibility

The Retirement Association is controlled by its own board, the Retirement Board, which acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. The Retirement Association publishes its own Comprehensive Annual Financial Report and receives a separate independent audit. The Retirement Association is also a legally separate entity from the County and not a component unit. For these reasons, the County's Comprehensive Annual Financial Report excludes the Retirement Association pension trust fund as of June 30, 2003.

**County of San Bernardino Special Districts
County Service Area No. 17 - Apple Valley
Notes to Financial Statements
June 30, 2003**

NOTE 3: RETIREMENT PLAN (continued)

Funding Policy

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary bases on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.36% - 13.46% of their annual covered salary of which the County pays approximately 7%. All employers combined are required to contribute 8.90% of the current year covered payroll. For 2003, the County's annual pension cost of \$68,361,000 was equal to the County's required and actual contributions. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Sections 31453 of the 1937 Act.

The following table shows the County's required contributions and percentage contributed, for the current year and two preceding years:

<u>Year Ended June 30,</u>	<u>Annual Pension Cost (in thousands)</u>	<u>Percentage Contributed</u>
2001	58,572	100%
2002	69,245	100%
2003	68,361	100%

The County, along with the AQMD, issued Pension Refunding Bonds (the "Bonds") in November 1995 with an aggregate amount of \$420,527,000. These Bonds were issued to allow the County and the AQMD to refinance each of their unfunded accrued actuarial liabilities with respect to retirement benefits for their respective employees. The Bonds are the obligations of the employers participating in the Plan and the assets of the Plan do not secure the Bonds. The County's portion of the bond issuance was \$386,266,000. The current amount outstanding at June 30, 2003 is \$430,898,000.

NOTE 4: FEDERAL AND STATE GRANTS

From time to time the CSA may receive funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although the CSA expects such amounts, if any, to be immaterial.

County of San Bernardino Special Districts
County Service Area No. 17 - Apple Valley
Notes to Financial Statements
June 30, 2003

NOTE 5: RISK MANAGEMENT

The CSA participates in a Public Entity Risk Pool sponsored by the County of San Bernardino (County). The CSA did not incur any insurance costs for annual premiums for the year ended June 30, 2003.

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and workers' compensation claims. Public liability claims are self-insured for up to \$250,000 per occurrence. Excess insurance coverage up to \$30 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II.

Workers' compensation claims are self-insured up to \$1 million per occurrence and covered by an independent carrier for the balance up to \$2 million for employer's liability and for workers' compensation statutory liability. Property damage claims are self-insured on an occurrence basis up to \$25,000 and insured by the CSAC EIA Property Programs I and II.

The County supplements its self-insurance for medical malpractice claims with an insurance policy that provides annual coverage on an occurrence basis with deductibles of \$1,000,000 for each claim and \$5,000,000 for total annual claims. Maximum coverage under the policy is \$20 million per occurrence with an additional \$30 million in limits provided by the CSAC EIA General Liability II Program.

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance and employee dental insurance, which are accounted for in the General Fund. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies and include amounts for claims incurred but not reported and allocated loss adjustment expense. The liabilities for these claims are reported using a discounted rate of 5.00%.

The County has an investment agreement with National Westminster Bank to finance the self-insured general liability, automobile liability, workers' compensation and medical malpractice programs. Quarterly disbursements are received by the County for fund reserves and payment of claims. The County's investment in the agreements totaled \$41,124,812 at June 30, 2003.

**County of San Bernardino Special Districts
County Service Area No. 17 - Apple Valley
Notes to Financial Statements
June 30, 2003**

NOTE 5: RISK MANAGEMENT (continued)

The claims liability of \$86,764,373 reported at June 30, 2003 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the claims liability amount in fiscal years 2002 and 2003 were:

<u>Fiscal Year</u>	<u>Beginning of Fiscal Year Liability (in thousands)</u>	<u>Current Year Claims and Changes in Estimates (in thousands)</u>	<u>Claims Payments (in thousands)</u>	<u>End of Fiscal Year Liability (in thousands)</u>
2002 - 2003	\$ 95,288	\$ 23,647	\$ (32,171)	\$ 86,764
2001 - 2002	\$ 61,172	\$ 61,832	\$ (27,716)	\$ 95,288

NOTE 6: CONTINGENCIES

As of June 30, 2003, in the opinion of the CSA Administration, there are no outstanding matters, which would have a significant effect on the financial position of the CSA.

NOTE 7: PROPOSITION 111 APPROPRIATION LIMITS

Proposition 111, which added Article XIIIB to the State Constitution, establishes limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2002-2003 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

Required Supplementary Information
County of San Bernardino Special Districts
County Service Area No. 17 - Apple Valley
Budgetary Comparison Schedule - Special Revenue Fund (General)
For the Year Ended June 30, 2003

	Special Revenue Fund			
	General (SFV)			
	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
REVENUES				
Property taxes	\$ 90,718	\$ 90,718	\$ 88,320	\$ (2,398)
Other taxes	-	-	3,532	3,532
State assistance	-	-	1,932	1,932
Investment earnings	16,000	16,000	13,284	(2,716)
Other	-	-	2,285	2,285
Total Revenues	106,718	106,718	109,353	2,635
EXPENDITURES				
Salaries and benefits	113,054	113,054	113,054	-
Services and supplies	485,720	485,720	27,805	457,915
Reserves and contingencies	29,521	29,521	-	29,521
Total Expenditures	628,295	628,295	140,859	487,436
Net Change in Fund Balances	<u>\$ (521,577)</u>	<u>\$ (521,577)</u>	(31,506)	<u>\$ 490,071</u>
Fund Balances - beginning			521,577	
Fund Balances - ending			\$ 490,071	

**COUNTY OF SAN BERNARDINO
SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 18
CEDARPINES PARK**

REPORT ON AUDIT

JUNE 30, 2003

**County of San Bernardino Special Districts
County Service Area No. 18
Cedarpines Park
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Board of Supervisors
County of San Bernardino
County of San Bernardino Special
District County Service Area
No. 18 - Cedarpines Park

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities and each major fund of the County of San Bernardino Special District County Service Area No. 18 - Cedarpines Park (CSA), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2003, which collectively comprise the CSA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the CSA's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the County of San Bernardino Special District County Service Area No. 18 - Cedarpines Park, as of June 30, 2003, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying budgetary comparison information on page 21 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

MEMBERS

AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
PCPS THE AICPA ALLIANCE FOR CPA FIRMS

CALIFORNIA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

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The County of San Bernardino Special District County Service Area No. 18 - Cedarpines Park has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the CSA's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly presented in all material respects in relation to the component unit financial statements taken as a whole.

September 26, 2003

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**County of San Bernardino Special Districts
County Service Area No. 18 - Cedarpines Park
Statement of Net Assets
June 30, 2003**

ASSETS

Cash and cash equivalents	\$ 124,236
Interest receivable	665
Taxes receivable	19,965
Capital assets, net of depreciation	<u>1,338,723</u>
Total Assets	<u>1,483,589</u>

LIABILITIES

Salaries and benefits payable	2,440
Compensated absences payable	<u>3,572</u>
Total Liabilities	<u>6,012</u>

NET ASSETS

Invested in capital assets	1,338,723
Unrestricted	<u>138,854</u>
Total Net Assets	<u><u>\$ 1,477,577</u></u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts
County Service Area No. 18 - Cedarpines Park
Statement of Activities
For the Year Ended June 30, 2003**

EXPENSES

Salaries and benefits	\$ 72,254
Services and supplies	61,769
Depreciation	52,486
Total Program Expenses	<u>186,509</u>

PROGRAM REVENUES

Special assessments	151,663
Net Program Expense	<u>(34,846)</u>

GENERAL REVENUES

Property taxes	80,461
Other taxes	3,083
State assistance	1,605
Investment earnings	3,751
Total General Revenues	<u>88,900</u>

Change in Net Assets	54,054
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Net Assets - beginning	<u>1,423,523</u>
------------------------	------------------

Net Assets - ending	<u><u>\$ 1,477,577</u></u>
---------------------	----------------------------

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts
County Service Area No. 18 - Cedarpines Park
Balance Sheet
Governmental Funds
June 30, 2003**

	SPECIAL REVENUE FUND	CAPITAL PROJECTS FUNDS		
	General (SFY)	1988 Bond Act (CBC)	Headwalls (CLF)	Paving (CLE)
ASSETS				
Cash and cash equivalents	\$ 77,637	\$ -	\$ 29,823	\$ 202
Interest receivable	466	-	96	12
Taxes receivable	14,088	-	-	-
Advance to other funds	3,435	-	-	-
Total Assets	\$ 95,626	\$ -	\$ 29,919	\$ 214
LIABILITIES AND FUND BALANCES				
Liabilities:				
Salaries and benefits payable	\$ 2,440	\$ -	\$ -	\$ -
Advance from other funds	-	3,435	-	-
Total Liabilities	2,440	3,435	-	-
Fund Balances:				
Unreserved:				
Designated for advances	3,435	-	-	-
Undesignated	89,751	(3,435)	29,919	214
Total Fund Balances	93,186	(3,435)	29,919	214
Total Liabilities and Fund Balances	\$ 95,626	\$ -	\$ 29,919	\$ 214

Amounts reported for *governmental activities* in the statement of net assets (Exhibit A) are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Some revenues will not be collected for several months after year-end, they are not considered "available" revenue in the governmental funds.

Property tax revenue

Compensated absences payable are not financial resources, and therefore, are not reported in the funds.

Net assets of governmental funds

The accompanying notes are an integral part of these financial statements.

OTHER GOVERNMENTAL FUNDS	Total Governmental Funds
\$ 16,574	\$ 124,236
91	665
-	14,088
-	3,435
<u>\$ 16,665</u>	<u>\$ 142,424</u>
\$ -	\$ 2,440
-	3,435
-	<u>5,875</u>
-	3,435
16,665	133,114
<u>16,665</u>	<u>136,549</u>
<u>\$ 16,665</u>	
	1,338,723
	5,877
	<u>(3,572)</u>
	<u>\$ 1,477,577</u>

County of San Bernardino Special Districts
County Service Area No. 18 - Cedarpines Park
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2003

	SPECIAL REVENUE FUND	CAPITAL PROJECTS FUNDS		
	General (SFY)	1988 Bond Act (CBC)	Headwalls (CLF)	Paving (CLE)
REVENUES				
Property taxes	\$ 80,475	\$ -	\$ -	\$ -
Special assessments	151,663	-	-	-
Other taxes	3,083	-	-	-
State assistance	1,605	-	-	-
Investment earnings	2,547	-	122	407
Total Revenues	239,373	-	122	407
EXPENDITURES				
Salaries and benefits	72,839	-	-	-
Services and supplies	61,769	-	-	-
Capital outlay:				
Improvements to land	-	-	-	54,012
Structures and improvements	-	-	1,833	-
Total Expenditures	134,608	-	1,833	54,012
Excess of Revenues Over (Under) Expenditures	104,765	-	(1,711)	(53,605)
OTHER FINANCING SOURCES (USES)				
Transfer in	-	-	31,630	53,819
Transfer out	(135,449)	-	-	-
Total Other Financing Sources (Uses)	(135,449)	-	31,630	53,819
Net Change in Fund Balances	(30,684)	-	29,919	214
Fund Balances - beginning	123,870	(3,435)	-	-
Fund Balances - ending	\$ 93,186	\$ (3,435)	\$ 29,919	\$ 214

The accompanying notes are an integral part of these financial statements.

OTHER GOVERNMENTAL FUNDS	Total Governmental Funds
\$ -	\$ 80,475
-	151,663
-	3,083
-	1,605
675	3,751
675	240,577
-	72,839
-	61,769
29,503	83,515
9,728	11,561
39,231	229,684
(38,556)	10,893
50,000	135,449
-	(135,449)
50,000	-
11,444	10,893
5,221	125,656
\$ 16,665	\$ 136,549

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County of San Bernardino Special Districts
County Service Area No. 18 - Cedarpines Park
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances of Governmental Funds to the
Statement of Activities
For the Year Ended June 30, 2003

Net Change in Fund Balances - Total Governmental Funds	\$	10,893
--	----	--------

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation expense in the current period.		42,590
--	--	--------

Some revenues will not be collected for several months after year-end, they are not considered "available" revenue in the governmental funds.

Property tax revenue - current year		5,877
Property tax revenue - prior year		(5,891)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Decrease in compensated absences payable		585
--	--	-----

Change in net assets of governmental activities	\$	54,054
---	----	--------

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts
County Service Area No. 18 - Cedarpines Park
Notes to Financial Statements
June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

The County Service Area (CSA) No. 18 was established by an act of the Board of Supervisors of the County of San Bernardino (the County) on January 21, 1946 under Section 4700 of the State Health & Safety Code to maintain 12 miles of unpaved roads, 8 miles of paved roads, one community center and one five-acre park.

The CSA is a component unit of the County of San Bernardino and is governed by the actions of the County Board of Supervisors.

The accompanying financial statements reflect only the accounts of the County Service Area No. 18 of the County of San Bernardino (County) and are not intended to present the financial position of the County taken as a whole.

Because the CSA meets the reporting entity criteria established by the Governmental Accounting Standards Board (GASB), the CSA's financial statements have also been included in the Comprehensive Annual Financial Report of the County as a "component unit" for the fiscal year ended June 30, 2003.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the reporting entity. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Currently, the CSA does not have any proprietary or fiduciary fund types. Major individual governmental funds are reported as separate columns in the fund financial statements.

County of San Bernardino Special Districts
County Service Area No. 18 - Cedarpines Park
Notes to Financial Statements
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *special revenue fund* labeled "General" is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *capital projects funds* are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

**County of San Bernardino Special Districts
County Service Area No. 18 - Cedarpines Park
Notes to Financial Statements
June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Deposits and investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." Currently, the CSA does not have any business-type activities.

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Property taxes

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

Inventories and prepaid items

Inventories, if any, are valued at cost using the first-in/first-out method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

County of San Bernardino Special Districts
County Service Area No. 18 - Cedarpines Park
Notes to Financial Statements
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of two years. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	40 - 60
Structures and improvements	5 - 40
Equipment and vehicles	4 - 15

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Employee compensated absences

Accumulated vacation, holiday benefits, sick pay and compensatory time are recorded as an expense and liability as the benefits are earned. Compensated absence liabilities are recorded as a current liability. The CSA is not obligated to pay for unused sick leave if an employee terminates or retires.

Compensated absences activity for the year ended June 30, 2003 was as follows:

<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
\$ 4,157	\$ 3,026	\$ 3,610	\$ 3,572

County of San Bernardino Special Districts
County Service Area No. 18 - Cedarpines Park
Notes to Financial Statements
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reconciliation of government-wide and fund financial statements

Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between *net changes in fund balances - total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this \$42,590 difference are as follows:

Capital outlay	\$ 95,076
Depreciation expense	<u>(52,486)</u>
Net adjustment to increase <i>net change in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ 42,590</u>

Stewardship, compliance and accountability

A. Budgetary information

In accordance with provisions of Section 29000 - 29143 of the Government code of the State of California, commonly known as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for fixed assets within each fund.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the Special District's Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

B. Deficit fund equity

The 1988 Bond Act fund has a deficit fund balance of \$3,435 as of June 30, 2003.

**County of San Bernardino Special Districts
County Service Area No. 18 - Cedarpines Park
Notes to Financial Statements
June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitment will be reappropriated and honored during the subsequent year.

NOTE 2: CASH AND DEPOSITS

Cash and Cash Equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and Cash Equivalents are shown at the fair value as of June 30, 2003.

NOTE 3: INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables at June 30, 2003, are as follows:

<u>Fund</u>	<u>Advance to Other Funds</u>	<u>Advance From Other Funds</u>
General (SFY)	\$ 3,435	\$ -
1988 Bond Act (CBC)	-	3,435
Total	<u>\$ 3,435</u>	<u>\$ 3,435</u>

County of San Bernardino Special Districts
County Service Area No. 18 - Cedarpines Park
Notes to Financial Statements
June 30, 2003

NOTE 4: CAPITAL ASSETS

Capital asset activity for year ended June 30, 2003 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 51,054	\$ -	\$ -	\$ 51,054
Construction in progress	-	95,076	-	95,076
Total capital assets, not being depreciated	51,054	95,076	-	146,130
Capital assets, being depreciated:				
Land improvements	305,994	-	-	305,994
Structures and improvements	232,722	-	-	232,722
Vehicles	229,947	32,230	-	262,177
Infrastructure	1,093,660	-	-	1,093,660
Total capital assets, being depreciated	1,862,323	32,230	-	1,894,553
Less accumulated depreciation for:				
Land improvements	(30,688)	(11,263)	-	(41,951)
Structures and improvements	(32,754)	(5,172)	-	(37,926)
Vehicles	(198,013)	(40,939)	-	(238,952)
Infrastructure	(355,789)	(27,342)	-	(383,131)
Total accumulated depreciation	(617,244)	(84,716) *	-	(701,960)
Total capital assets, being depreciated, net	1,245,079	(52,486)	-	1,192,593
Governmental activities capital assets, net	\$1,296,133	\$ 42,590	\$ -	\$ 1,338,723

* This amount includes current year depreciation expense of \$52,486 and \$32,230 of accumulated depreciation as of May 31, 2003 for equipment with a cost of \$32,230 that was transferred to the CSA in the current year.

**County of San Bernardino Special Districts
County Service Area No. 18 - Cedarpines Park
Notes to Financial Statements
June 30, 2003**

NOTE 5: RETIREMENT PLAN

Plan Description

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the "Plan") operating under the California County Employees Retirement Act of 1937 ("1937 Act"). It provides retirement, death, and disability benefits to members. Although legally established as a single employer plan, the City of Big Bear Lake, the City of Chino Hills, the California State Association of Counties, the San Bernardino County Law Library, Crest Forest Fire Protection District, Mojave Desert Air Quality Management District (MDAQMD) and the South Coast Air Quality Management District (the "AQMD"), were later included, along with the County of San Bernardino (the "County"), and are collectively referred to as the "Participating Members". The plan is governed by the San Bernardino Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 W Hospitality Lane - 3rd floor, San Bernardino, California 92415-0014.

Fiduciary Responsibility

The Retirement Association is controlled by its own board, the Retirement Board, which acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. The Retirement Association publishes its own Comprehensive Annual Financial Report and receives a separate independent audit. The Retirement Association is also a legally separate entity from the County and not a component unit. For these reasons, the County's Comprehensive Annual Financial Report excludes the Retirement Association pension trust fund as of June 30, 2003.

Funding Policy

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary bases on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.36% - 13.46% of their annual covered salary of which the County pays approximately 7%. All employers combined are required to contribute 8.90% of the current year covered payroll. For 2003, the County's annual pension cost of \$68,361,000 was equal to the County's required and actual contributions. The CSA paid \$4,953 to the plan as the employer's share. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Sections 31453 of the 1937 Act.

County of San Bernardino Special Districts
County Service Area No. 18 - Cedarpines Park
Notes to Financial Statements
June 30, 2003

NOTE 5: RETIREMENT PLAN (continued)

The following table shows the County's required contributions and percentage contributed, for the current year and two preceding years:

<u>Year Ended June 30,</u>	<u>Annual Pension Cost (in thousands)</u>	<u>Percentage Contributed</u>
2001	58,572	100%
2002	69,245	100%
2003	68,361	100%

The County, along with the AQMD, issued Pension Refunding Bonds (the "Bonds") in November 1995 with an aggregate amount of \$420,527,000. These Bonds were issued to allow the County and the AQMD to refinance each of their unfunded accrued actuarial liabilities with respect to retirement benefits for their respective employees. The Bonds are the obligations of the employers participating in the Plan and the assets of the Plan do not secure the Bonds. The County's portion of the bond issuance was \$386,266,000. The current amount outstanding at June 30, 2003 is \$430,898,000.

NOTE 6: FEDERAL AND STATE GRANTS

From time to time the CSA may receive funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although the CSA expects such amounts, if any, to be immaterial.

NOTE 7: RISK MANAGEMENT

The CSA participates in a Public Entity Risk Pool sponsored by the County of San Bernardino (County). Insurance premiums totaled \$6,269 for the year ended June 30, 2003.

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and workers' compensation claims. Public liability claims are self-insured for up to \$250,000 per occurrence. Excess insurance coverage up to \$30 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II.

County of San Bernardino Special Districts
County Service Area No. 18 - Cedarpines Park
Notes to Financial Statements
June 30, 2003

NOTE 7: RISK MANAGEMENT (continued)

Workers' compensation claims are self-insured up to \$1 million per occurrence and covered by an independent carrier for the balance up to \$2 million for employer's liability and for workers' compensation statutory liability. Property damage claims are self-insured on an occurrence basis up to \$25,000 and insured by the CSAC EIA Property Programs I and II.

The County supplements its self-insurance for medical malpractice claims with an insurance policy that provides annual coverage on an occurrence basis with deductibles of \$1,000,000 for each claim and \$5,000,000 for total annual claims. Maximum coverage under the policy is \$20 million per occurrence with an additional \$30 million in limits provided by the CSAC EIA General Liability II Program.

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance and employee dental insurance, which are accounted for in the General Fund. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies and include amounts for claims incurred but not reported and allocated loss adjustment expense. The liabilities for these claims are reported using a discounted rate of 5.00%.

The County has an investment agreement with National Westminster Bank to finance the self-insured general liability, automobile liability, workers' compensation and medical malpractice programs. Quarterly disbursements are received by the County for fund reserves and payment of claims. The County's investment in the agreements totaled \$41,124,812 at June 30, 2003.

The claims liability of \$86,764,373 reported at June 30, 2003 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the claims liability amount in fiscal years 2002 and 2003 were:

Fiscal Year	Beginning of Fiscal Year Liability (in thousands)	Current Year Claims and Changes in Estimates (in thousands)	Claims Payments (in thousands)	End of Fiscal Year Liability (in thousands)
2002 - 2003	\$ 95,288	\$ 23,647	\$ (32,171)	\$ 86,764
2001 - 2002	\$ 61,172	\$ 61,832	\$ (27,716)	\$ 95,288

**County of San Bernardino Special Districts
County Service Area No. 18 - Cedarpines Park
Notes to Financial Statements
June 30, 2003**

NOTE 8: TRANSFERS IN/OUT

Interfund transfers are transactions used to close out a fund, reimburse an operating fund, and transfer cash between operating funds and capital projects funds. At June 30, 2003, the CSA made the following interfund transfers in and out:

	Transfers in:					Total
	Headwalls	Paving	Road Sealing	Community Center	Storage Ctn.	
Transfers out:						
General	\$ 31,630	\$ 53,819	\$ 30,000	\$ 10,000	\$ 10,000	\$ 135,449

NOTE 9: CONTINGENCIES

As of June 30, 2003, in the opinion of the CSA Administration, there are no outstanding matters, which would have a significant effect on the financial position of the CSA.

NOTE 10: PROPOSITION 111 APPROPRIATION LIMITS

Proposition 111, which added Article XIIIB to the State Constitution, establishes limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2002-2003 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

Required Supplementary Information
County of San Bernardino Special Districts
County Service Area No. 18 - Cedarpines Park
Budgetary Comparison Schedule - Special Revenue Fund (General)
For the Year Ended June 30, 2003

	Special Revenue Fund			
	General (SFY)			
	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
REVENUES				
Property taxes	\$ 75,579	\$ 75,579	\$ 80,475	\$ 4,896
Special assessments	160,000	160,000	151,663	(8,337)
Other taxes	-	-	3,083	3,083
State assistance	50,000	50,000	1,605	(48,395)
Investment earnings	1,500	1,500	2,547	1,047
Total Revenues	287,079	287,079	239,373	(47,706)
EXPENDITURES				
Salaries and benefits	81,822	81,822	72,839	8,983
Services and supplies	60,816	60,816	61,769	(953)
Reserves and contingencies	33,244	33,244	-	33,244
Capital outlay:				
Vehicles	50,000	50,000	-	50,000
Total Expenditures	225,882	225,882	134,608	91,274
Excess of Revenues Over Expenditures	61,197	61,197	104,765	43,568
OTHER FINANCING SOURCES (USES)				
Transfer out	(181,630)	(181,630)	(135,449)	46,181
Total Other Financing Sources (Uses)	(181,630)	(181,630)	(135,449)	46,181
Net Change in Fund Balances	\$ (120,433)	\$ (120,433)	(30,684)	\$ 89,749
Fund Balances - beginning			123,870	
Fund Balances - ending			\$ 93,186	

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 18 - Cedarpines Park
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2003

	SPECIAL REVENUE FUND	CAPITAL PROJECTS FUNDS	
	Landscaping (SFZ)	Cedarpines (CFM)	Road Sealing (CLG)
ASSETS			
Cash and cash equivalents	\$ 3,811	\$ 1,569	\$ 969
Interest receivable	22	9	5
	<u>3,833</u>	<u>1,578</u>	<u>974</u>
Total Assets	\$ 3,833	\$ 1,578	\$ 974
LIABILITIES AND FUND BALANCES			
Liabilities	\$ -	\$ -	\$ -
Fund Balances:			
Unreserved:			
Undesignated	3,833	1,578	974
	<u>3,833</u>	<u>1,578</u>	<u>974</u>
Total Fund Balances	3,833	1,578	974
	<u>3,833</u>	<u>1,578</u>	<u>974</u>
Total Liabilities and Fund Balances	\$ 3,833	\$ 1,578	\$ 974

The accompanying notes are an integral part of these financial statements.

Schedule Two

CAPITAL PROJECTS FUNDS		Total Nonmajor Governmental Funds (see Exhibit C)
Comm. Ctr. (CLJ)	Storage Ctn. (CLM)	
\$ 408 24	\$ 9,817 31	\$ 16,574 91
<u>\$ 432</u>	<u>\$ 9,848</u>	<u>\$ 16,665</u>
\$ -	\$ -	\$ -
<u>432</u>	<u>9,848</u>	<u>16,665</u>
<u>432</u>	<u>9,848</u>	<u>16,665</u>
<u>\$ 432</u>	<u>\$ 9,848</u>	<u>\$ 16,665</u>

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 18 - Cedarpines Park
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2003

	SPECIAL REVENUE FUND	CAPITAL PROJECTS FUNDS	
	Landscaping (SFZ)	Cedarpines (CFM)	Road Sealing (CLG)
REVENUES			
Investment earnings	\$ 125	\$ 65	\$ 286
Total Revenues	<u>125</u>	<u>65</u>	<u>286</u>
EXPENDITURES			
Capital outlay:			
Improvements to land	-	-	29,312
Structures and improvements	-	-	-
Total Expenditures	<u>-</u>	<u>-</u>	<u>29,312</u>
Excess of Revenues Over (Under) Expenditures	<u>125</u>	<u>65</u>	<u>(29,026)</u>
OTHER FINANCING SOURCES			
Transfer in	-	-	30,000
Total Other Financing Sources	<u>-</u>	<u>-</u>	<u>30,000</u>
Net Change in Fund Balances	125	65	974
Fund Balances - beginning	<u>3,708</u>	<u>1,513</u>	<u>-</u>
Fund Balances - ending	<u>\$ 3,833</u>	<u>\$ 1,578</u>	<u>\$ 974</u>

The accompanying notes are an integral part of these financial statements.

CAPITAL PROJECTS FUNDS		Total Nonmajor Governmental Funds (see Exhibit D)
Comm. Ctr. (CLJ)	Storage Ctn. (CLM)	
\$ 160	\$ 39	\$ 675
160	39	675
-	191	29,503
9,728	-	9,728
9,728	191	39,231
(9,568)	(152)	(38,556)
10,000	10,000	50,000
10,000	10,000	50,000
432	9,848	11,444
-	-	5,221
\$ 432	\$ 9,848	\$ 16,665



**COUNTY OF SAN BERNARDINO
SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 20
JOSHUA TREE**

REPORT ON AUDIT

JUNE 30, 2003

**County of San Bernardino Special Districts
County Service Area No. 20
Joshua Tree
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Board of Supervisors
County of San Bernardino
County of San Bernardino Special
District County Service Area
No. 20 - Joshua Tree

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, the major fund and the aggregate remaining fund information of the County of San Bernardino Special District County Service Area No. 20 - Joshua Tree (CSA), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2003, which collectively comprise the CSA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the CSA's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the County of San Bernardino Special District County Service Area No. 20 - Joshua Tree, as of June 30, 2003, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying budgetary comparison information on page 18 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

MEMBERS

AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
PCPS THE AICPA ALLIANCE FOR CPA FIRMS

CALIFORNIA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

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The County of San Bernardino Special District County Service Area No. 20 - Joshua Tree has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the CSA's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly presented in all material respects in relation to the component unit financial statements taken as a whole.

September 26, 2003

County of San Bernardino Special Districts
County Service Area No. 20 - Joshua Tree
Statement of Net Assets
June 30, 2003

ASSETS

Cash and cash equivalents	\$ 33,301
Special activities fund	19,613
Interest receivable	1
Taxes receivable	82,309
Capital assets, net of depreciation	<u>1,441,060</u>
Total Assets	<u>1,576,284</u>

LIABILITIES

Salaries and benefits payable	9,745
Due to other governments	119
Compensated absences payable	23,234
Interest payable	54
Loan payable	<u>762</u>
Total Liabilities	<u>33,914</u>

NET ASSETS

Invested in capital assets	1,441,060
Restricted	19,613
Unrestricted	<u>81,697</u>
Total Net Assets	<u>\$ 1,542,370</u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts
County Service Area No. 20 - Joshua Tree
Statement of Activities
For the Year Ended June 30, 2003**

EXPENSES

Salaries and benefits	\$ 258,209
Services and supplies	543,173
Depreciation	50,474
Interest	22
Other	10
Total Program Expenses	<u>851,888</u>

PROGRAM REVENUES

Charges for services	<u>217,047</u>
Net Program Expense	<u>(634,841)</u>

GENERAL REVENUES

Property taxes	542,711
Other taxes	26,239
State assistance	11,643
Investment earnings	4
Gain on sale of capital asset	965
Other	4,159
Total General Revenues	<u>585,721</u>

Change in Net Assets	<u>(49,120)</u>
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Net Assets - beginning, as previously reported	1,560,518
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Prior Period Adjustment	<u>30,972</u>
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Net Assets - beginning, restated	<u>1,591,490</u>
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Net Assets - ending	<u><u>\$ 1,542,370</u></u>
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The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 20 - Joshua Tree
Balance Sheet
Governmental Funds
June 30, 2003

	SPECIAL REVENUE FUND General (SGD)	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 33,083	\$ 218	\$ 33,301
Special activities fund	19,613	-	19,613
Interest receivables	-	1	1
Taxes receivables	40,697	-	40,697
Total Assets	<u>\$ 93,393</u>	<u>\$ 219</u>	<u>\$ 93,612</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Salaries and benefits payable	\$ 9,745	\$ -	\$ 9,745
Due to other governments	119	-	119
Total Liabilities	<u>9,864</u>	<u>-</u>	<u>9,864</u>
Fund Balances:			
Reserved for:			
Special activities	19,613	-	19,613
Unreserved:			
Undesignated	63,916	219	64,135
Total Fund Balances	<u>83,529</u>	<u>219</u>	<u>83,748</u>
Total Liabilities and Fund Balances	<u>\$ 93,393</u>	<u>\$ 219</u>	

Amounts reported for *governmental activities* in the statement of net assets (Exhibit A) are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 1,441,060

Some revenues will not be collected for several months after year-end, they are not considered "available" revenue in the governmental funds.
Property tax revenue 41,612

Compensated absences payables are not financial resources, and therefore, are not reported in the funds. (23,234)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of the debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.

Loan payable (762)
Interest payable (54)

Net assets of governmental funds \$ 1,542,370

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 20 - Joshua Tree
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2003

	SPECIAL REVENUE FUND	Other Governmental Funds	Total Governmental Funds
	General (SGD)		
REVENUES			
Property taxes	\$ 543,825	\$ -	\$ 543,825
Special assessments	173,341	-	173,341
Other taxes	26,239	-	26,239
State assistance	11,643	-	11,643
Investment earnings	-	4	4
Service fees	43,706	-	43,706
Other	4,159	-	4,159
Total Revenue	<u>802,913</u>	<u>4</u>	<u>802,917</u>
EXPENDITURES			
Salaries and benefits	257,989	-	257,989
Services and supplies	543,173	-	543,173
Other	-	10	10
Total Expenditures	<u>801,162</u>	<u>10</u>	<u>801,172</u>
Excess of Revenues Over (Under) Expenditures	<u>1,751</u>	<u>(6)</u>	<u>1,745</u>
OTHER FINANCING SOURCES (USES)			
Gain on sale of capital assets	965	-	965
Total Other Financing Sources (Uses)	<u>965</u>	<u>-</u>	<u>965</u>
Net Change in Fund Balances	2,716	(6)	2,710
Fund Balances - beginning	<u>80,813</u>	<u>225</u>	<u>81,038</u>
Fund Balances - ending	<u>\$ 83,529</u>	<u>\$ 219</u>	<u>\$ 83,748</u>

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 20 - Joshua Tree
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances of Governmental Funds to the
Statement of Activities
For the Year Ended June 30, 2003

Net Change in Fund Balances - Total Governmental Funds	\$	2,710
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlay in the current period.		(50,474)
--	--	----------

Some revenues will not be collected for several months after year-end, they are not considered "available" revenue in the governmental funds.

Property tax revenue - current year		41,612
Property tax revenue - prior year		(42,726)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Increase in compensated absences payable		(220)
Increase in accrued interest payable		(22)

Change in net assets of governmental activities	\$	<u>(49,120)</u>
---	----	-----------------

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts
County Service Area No. 20 - Joshua Tree
Notes to Financial Statements
June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

The County Service Area (CSA) No. 20 was established by an act of the Board of Supervisors of the County of San Bernardino (the County) on February 1, 1993 under Resolution 93-22 to provide financing for four parks, three ball fields, a swimming pool, two recreation center buildings, a 12,000 sq. ft. community center, and maintenance of 329 street lights. Fire protection is provided through a contract with CSA 38 under the administrative direction of the County Fire Department.

The CSA is a component unit of the County of San Bernardino and is governed by the actions of the County Board of Supervisors.

The accompanying financial statements reflect only the accounts of the County Service Area No. 20 of the County of San Bernardino (County) and are not intended to present the financial position of the County taken as a whole.

Because the CSA meets the reporting entity criteria established by the Governmental Accounting Standards Board (GASB), the CSA's financial statements have also been included in the Comprehensive Annual Financial Report of the County as a "component unit" for the fiscal year ended June 30, 2003.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the reporting entity. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Currently, the CSA does not have any proprietary or fiduciary fund types. Major individual governmental funds are reported as separate columns in the fund financial statements.

County of San Bernardino Special Districts
County Service Area No. 20 - Joshua Tree
Notes to Financial Statements
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental fund:

The *special revenue fund* labeled "General" is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

County of San Bernardino Special Districts
County Service Area No. 20 - Joshua Tree
Notes to Financial Statements
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Deposits and investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." Currently, the CSA does not have any business-type activities.

Property taxes

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

Inventories and prepaid items

Inventories, if any, are valued at cost using the first-in/first-out method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of two years. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

County of San Bernardino Special Districts
County Service Area No. 20 - Joshua Tree
Notes to Financial Statements
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	40 - 60
Structures and improvements	5 - 40
Equipment and vehicles	4 - 15

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Employee compensated absences

Accumulated vacation, holiday benefits, sick pay and compensatory time are recorded as an expense and liability as the benefits are earned. Compensated absence liabilities are recorded as a current liability. The CSA is not obligated to pay for unused sick leave if an employee terminates or retires.

Compensated absences activity for the year ended June 30, 2003 was as follows:

<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
<u>\$ 23,014</u>	<u>\$ 10,415</u>	<u>\$ 10,195</u>	<u>\$ 23,234</u>

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

County of San Bernardino Special Districts
County Service Area No. 20 - Joshua Tree
Notes to Financial Statements
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Stewardship, compliance and accountability

A. Budgetary information

In accordance with provisions of Section 29000 - 29143 of the Government code of the State of California, commonly known as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for fixed assets within each fund.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the Special District's Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

B. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitment will be reappropriated and honored during the subsequent year.

NOTE 2: CASH AND DEPOSITS

Cash and Cash Equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and Cash Equivalents are shown at the fair value as of June 30, 2003.

County of San Bernardino Special Districts
County Service Area No. 20 - Joshua Tree
Notes to Financial Statements
June 30, 2003

NOTE 3: CAPITAL ASSETS

Capital asset activity for year ended June 30, 2003 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 51,235	\$ -	\$ -	\$ 51,235
Total capital assets, not being depreciated	51,235	-	-	51,235
Capital assets, being depreciated:				
Land improvements	777,240	30,972	-	808,212
Structures and improvements	1,381,905	-	-	1,381,905
Vehicles	189,513	-	(15,152)	174,361
Equipment	7,841	-	-	7,841
Construction in progress	49,100	-	-	49,100
Total capital assets, being depreciated	2,405,599	30,972	(15,152)	2,421,419
Less accumulated depreciation for:				
Land improvements	(419,461)	(17,153)	-	(436,614)
Structures and improvements	(389,170)	(30,596)	-	(419,766)
Vehicles	(179,800)	(2,725)	15,152	(167,373)
Equipment	(7,841)	-	-	(7,841)
Total accumulated depreciation	(996,272)	(50,474)	15,152	1,031,594
Total Capital assets, being depreciated, net	1,409,327	(19,502)	-	1,389,825
Governmental activities capital assets, net	<u>\$1,460,562</u>	<u>\$ (19,502)</u>	<u>\$ -</u>	<u>\$ 1,441,060</u>

NOTE 4: LOAN PAYABLE

The CSA received loan proceeds from the County's Revolving Fund established under Government Code Section 25210.9c. All loans to date have five-year terms as established by the Board of Supervisors. The loan balance reported on the *Statement of Net Assets* at June 30, 2003 is \$762.

Future debt service payments for the County's revolving loan is not disclosed because there are no fixed payment dates.

**County of San Bernardino Special Districts
County Service Area No. 20 - Joshua Tree
Notes to Financial Statements
June 30, 2003**

NOTE 5: SPECIAL ACTIVITIES FUND

The CSA operates a revolving fund in accordance with Public Resources Code Section 5784.35. The fund is for the purpose of conducting and supervising special recreational activities. The revenue received and expenses paid are kept in commercial banks. Because the recreational activities are self-funded and are not apart of the CSA's budget, only the cash balance and related equity are reported on the CSA's *Balance Sheet* and *Statement of Net Assets*. Profits earned from special activities are reflected as part of charges for services on the *Statement of Activities* and as service fees on the *Statement of Revenues, Expenditures and Changes in Fund Balance*. The net increase in cash from June 30, 2002 to June 30, 2003 is \$4,218.

NOTE 6: RETIREMENT PLAN

Plan Description

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the "Plan") operating under the California County Employees Retirement Act of 1937 ("1937 Act"). It provides retirement, death, and disability benefits to members. Although legally established as a single employer plan, the City of Big Bear Lake, the City of Chino Hills, the California State Association of Counties, the San Bernardino County Law Library, Crest Forest Fire Protection District, Mojave Desert Air Quality Management District (MDAQMD) and the South Coast Air Quality Management District (the "AQMD"), were later included, along with the County of San Bernardino (the "County"), and are collectively referred to as the "Participating Members". The plan is governed by the San Bernardino Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 W Hospitality Lane - 3rd floor, San Bernardino, California 92415-0014.

Fiduciary Responsibility

The Retirement Association is controlled by its own board, the Retirement Board, which acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. The Retirement Association publishes its own Comprehensive Annual Financial Report and receives a separate independent audit. The Retirement Association is also a legally separate entity from the County and not a component unit. For these reasons, the County's Comprehensive Annual Financial Report excludes the Retirement Association pension trust fund as of June 30, 2003.

**County of San Bernardino Special Districts
County Service Area No. 20 - Joshua Tree
Notes to Financial Statements
June 30, 2003**

NOTE 6: RETIREMENT PLAN (continued)

Funding Policy

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary bases on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.36% - 13.46% of their annual covered salary of which the County pays approximately 7%. All employers combined are required to contribute 8.90% of the current year covered payroll. For 2003, the County's annual pension cost of \$68,361,000 was equal to the County's required and actual contributions. The CSA paid \$15,148 to the plan as the employer's portion. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Sections 31453 of the 1937 Act.

The following table shows the County's required contributions and percentage contributed, for the current year and two preceding years:

Year Ended June 30,	Annual Pension Cost (in thousands)	Percentage Contributed
2001	58,572	100%
2002	69,245	100%
2003	68,361	100%

The County, along with the AQMD, issued Pension Refunding Bonds (the "Bonds") in November 1995 with an aggregate amount of \$420,527,000. These Bonds were issued to allow the County and the AQMD to refinance each of their unfunded accrued actuarial liabilities with respect to retirement benefits for their respective employees. The Bonds are the obligations of the employers participating in the Plan and the assets of the Plan do not secure the Bonds. The County's portion of the bond issuance was \$386,266,000. The current amount outstanding at June 30, 2003 is \$430,898,000.

NOTE 7: FEDERAL AND STATE GRANTS

From time to time the CSA may receive funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although the CSA expects such amounts, if any, to be immaterial.

County of San Bernardino Special Districts
County Service Area No. 20 - Joshua Tree
Notes to Financial Statements
June 30, 2003

NOTE 8: RISK MANAGEMENT

The CSA participates in a Public Entity Risk Pool sponsored by the County of San Bernardino (County). Insurance premiums totaled \$19,173 for the year ended June 30, 2003.

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and workers' compensation claims. Public liability claims are self-insured for up to \$250,000 per occurrence. Excess insurance coverage up to \$30 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II.

Workers' compensation claims are self-insured up to \$1 million per occurrence and covered by an independent carrier for the balance up to \$2 million for employer's liability and for workers' compensation statutory liability. Property damage claims are self-insured on an occurrence basis up to \$25,000 and insured by the CSAC EIA Property Programs I and II.

The County supplements its self-insurance for medical malpractice claims with an insurance policy that provides annual coverage on an occurrence basis with deductibles of \$1,000,000 for each claim and \$5,000,000 for total annual claims. Maximum coverage under the policy is \$20 million per occurrence with an additional \$30 million in limits provided by the CSAC EIA General Liability II Program.

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance and employee dental insurance, which are accounted for in the General Fund. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies and include amounts for claims incurred but not reported and allocated loss adjustment expense. The liabilities for these claims are reported using a discounted rate of 5.00%.

The County has an investment agreement with National Westminster Bank to finance the self-insured general liability, automobile liability, workers' compensation and medical malpractice programs. Quarterly disbursements are received by the County for fund reserves and payment of claims. The County's investment in the agreements totaled \$41,124,812 at June 30, 2003.

**County of San Bernardino Special Districts
County Service Area No. 20 - Joshua Tree
Notes to Financial Statements
June 30, 2003**

NOTE 8: RISK MANAGEMENT (continued)

The claims liability of \$86,764,373 reported at June 30, 2003 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the claims liability amount in fiscal years 2002 and 2003 were:

<u>Fiscal Year</u>	<u>Beginning of Fiscal Year Liability (in thousands)</u>	<u>Current Year Claims and Changes in Estimates (in thousands)</u>	<u>Claims Payments (in thousands)</u>	<u>End of Fiscal Year Liability (in thousands)</u>
2002 - 2003	\$ 95,288	\$ 23,647	\$ (32,171)	\$ 86,764
2001 - 2002	\$ 61,172	\$ 61,832	\$ (27,716)	\$ 95,288

NOTE 9: CONTINGENCIES

As of June 30, 2003, in the opinion of the CSA Administration, there are no outstanding matters, which would have a significant effect on the financial position of the CSA.

NOTE 10: PROPOSITION 111 APPROPRIATION LIMITS

Proposition 111, which added Article XIIIB to the State Constitution, establishes limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2002-2003 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

NOTE 11: PRIOR PERIOD ADJUSTMENT

The County expended \$30,972 for the paving of cemetery parking lot in Joshua Tree. The expenditures occurred in the 1999-2000 fiscal year, but the capital asset was never recorded in the General Fixed Asset Account Group. As a result, Fund Balance was understated. The \$30,972 is being reported as a current year addition to improvements to land (See Note 3).

Required Supplementary Information
County of San Bernardino Special Districts
County Service Area No. 20 - Joshua Tree
Budgetary Comparison Schedule - Special Revenue Fund (General)
For the Year Ended June 30, 2003

	Special Revenue Fund			
	General (SGD)			
	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
REVENUES:				
Property taxes	\$ 541,036	\$ 541,036	\$ 543,825	\$ 2,789
Special assessments	173,000	173,000	173,341	341
Other taxes	-	-	26,239	26,239
State assistance	200,000	200,000	11,643	(188,357)
Investment earnings	1,500	1,500	-	(1,500)
Service fees	35,926	35,926	43,706	7,780
Other	-	-	4,159	4,159
Total Revenues	951,462	951,462	802,913	(148,549)
EXPENDITURES:				
Salaries and benefits	285,696	285,696	257,989	27,707
Services and supplies	530,683	550,683	543,173	7,510
Total Expenditures	816,379	836,379	801,162	35,217
Excess of Revenues Over (Under) Expenditures	135,083	115,083	1,751	(113,332)
OTHER FINANCING SOURCES (USES)				
Sale of capital assets	-	-	965	965
Transfer out	(200,000)	(180,000)	-	180,000
Total Other Financing Sources (Uses)	(200,000)	(180,000)	965	180,965
Net Change in Fund Balances	\$ (64,917)	\$ (64,917)	2,716	\$ 67,633
Fund Balances - beginning			80,813	
Fund Balances - ending			\$ 83,529	

County of San Bernardino Special Districts
County Service Area No. 20 - Joshua Tree
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2003

	CAPITAL PROJECTS FUNDS		Total Nonmajor Governmental Funds (see Exhibit C)
	Fire Station (CFY)	Air Conditioner (CWA)	
ASSETS			
Cash and cash equivalents	\$ 157	\$ 61	\$ 218
Interest receivable	1	-	1
Total Assets	<u>\$ 158</u>	<u>\$ 61</u>	<u>\$ 219</u>
LIABILITIES AND FUND BALANCES			
Liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Fund Balances:			
Unreserved:			
Undesignated	<u>158</u>	<u>61</u>	<u>219</u>
Total Fund Balances	<u>158</u>	<u>61</u>	<u>219</u>
Total Liabilities and Fund Balances	<u>\$ 158</u>	<u>\$ 61</u>	<u>\$ 219</u>

County of San Bernardino Special Districts
County Service Area No. 20 - Joshua Tree
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
June 30, 2003

	CAPITAL PROJECTS FUNDS		Total Nonmajor Governmental Funds (see Exhibit D)
	Fire Station (CFY)	Air Conditioner (CWA)	
REVENUES			
Investment earnings	\$ 2	\$ 2	\$ 4
Total Revenues	2	2	4
EXPENDITURES			
Other	-	10	10
Total Expenditures	-	10	10
Net Change in Fund Balances	2	(8)	(6)
Fund balances - beginning	156	69	225
Fund balances - ending	\$ 158	\$ 61	\$ 219

**COUNTY OF SAN BERNARDINO
SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 29
LUCERNE VALLEY**

REPORT ON AUDIT

JUNE 30, 2003

**County of San Bernardino Special Districts
County Service Area No. 29
Lucerne Valley
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Board of Supervisors
County of San Bernardino
County of San Bernardino Special
District County Service Area
No. 29 - Lucerne Valley

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the County of San Bernardino Special District County Service Area No. 29 - Lucerne Valley (CSA), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2003, which collectively comprise the CSA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the CSA's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of the County of San Bernardino Special District County Service Area No. 29 - Lucerne Valley, as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying budget comparison information on pages 25 - 26 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

MEMBERS

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The County of San Bernardino Special District County Service Area No. 29 - Lucerne Valley has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the CSA's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly presented in all material respects in relation to the component unit financial statements taken as a whole.

September 26, 2003

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**County of San Bernardino Special Districts
County Service Area No. 29 - Lucerne Valley
Statement of Net Assets
June 30, 2003**

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 289,159	\$ 10,323	\$ 299,482
Accounts receivable, net	-	41,920	41,920
Special activities fund	5,215	-	5,215
Interest receivable	847	214	1,061
Taxes receivable	129,963	-	129,963
Capital assets, net of depreciation	1,233,880	-	1,233,880
Total Assets	1,659,064	52,457	1,711,521
LIABILITIES			
Salaries and benefits payable	9,744	-	9,744
Due to other governments	2,407	-	2,407
Compensated absences payable	9,715	-	9,715
Total Liabilities	21,866	-	21,866
NET ASSETS			
Invested in capital assets	1,233,880	-	1,233,880
Restricted	5,215	-	5,215
Unrestricted	398,103	52,457	450,560
Total Net Assets	\$ 1,637,198	\$ 52,457	\$ 1,689,655

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Services Area No. 29 - Lucerne Valley
Statement of Activities
For the Year Ended June 30, 2003

	Governmental Activities	Business-type Activities	Total
EXPENSES			
Salaries and benefits	\$ 968,086	\$ 12,554	\$ 980,640
Services and supplies	261,437	266,591	528,028
Depreciation	48,127	-	48,127
Interest	114	-	114
Professional fees	-	16,301	16,301
Total Program Expenses	<u>1,277,764</u>	<u>295,446</u>	<u>1,573,210</u>
PROGRAM REVENUE			
Charges for services	705	402,636	403,341
Capital grants and contributions	5,212	-	5,212
Net Program (Expense) Revenue	<u>(1,271,847)</u>	<u>107,190</u>	<u>(1,164,657)</u>
GENERAL REVENUES			
Property taxes	954,814	-	954,814
Other taxes	46,761	-	46,761
State assistance	21,190	-	21,190
Investment earnings	6,826	1,385	8,211
Intergovernmental	47,381	-	47,381
Loss on sale of capital assets	-	(1,350)	(1,350)
Other	6,199	-	6,199
TRANSFERS - INTERNAL ACTIVITIES	198,507	(198,507)	-
Total General Revenues and Transfers	<u>1,281,678</u>	<u>(198,472)</u>	<u>1,083,206</u>
Change in Net Assets	9,831	(91,282)	(81,451)
Net assets - beginning	<u>1,627,367</u>	<u>143,739</u>	<u>1,771,106</u>
Net assets - ending	<u>\$ 1,637,198</u>	<u>\$ 52,457</u>	<u>\$ 1,689,655</u>

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 29 - Lucerne Valley
Balance Sheet
Governmental Funds
June 30, 2003

	SPECIAL REVENUE FUNDS		PERMANENT FUND
	Fire (SGF)	General (SGG)	Cemetery (TAD)
ASSETS			
Cash and cash equivalents	\$ 60,447	\$ 154,977	\$ 73,460
Special activities fund	-	5,215	-
Interest receivable	456	-	389
Taxes receivable	38,343	16,433	-
Due from other funds	975	-	-
Total Assets	<u>\$ 100,221</u>	<u>\$ 176,625</u>	<u>\$ 73,849</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Salaries and benefits payable	\$ 2,617	\$ 7,126	\$ -
Due to other funds	-	975	-
Due to other governments	2,324	83	-
Total Liabilities	<u>4,941</u>	<u>8,184</u>	<u>-</u>
Fund Balances:			
Reserved for:			
Special activities	-	5,215	-
Unreserved:			
Undesignated	<u>95,280</u>	<u>163,226</u>	<u>73,849</u>
Total Fund Balances	<u>95,280</u>	<u>168,441</u>	<u>73,849</u>
Total Liabilities and Fund Balances	<u>\$ 100,221</u>	<u>\$ 176,625</u>	<u>\$ 73,849</u>

Amounts reported for *governmental activities* in the statement of net assets (Exhibit A) are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Some revenues will not be collected for several months after year-end, they are not considered "available" revenue in the governmental funds.

Property tax revenue

Compensated absences payable are not financial resources, and therefore, are not reported in the funds.

Net assets of governmental funds

The accompanying notes are an integral part of these financial statements.

OTHER GOVERNMENTAL FUNDS	Total Governmental Funds
\$ 275	\$ 289,159
-	5,215
2	847
-	54,776
-	975
<u>\$ 277</u>	<u>\$ 350,972</u>
\$ -	\$ 9,743
-	975
-	2,407
<u>-</u>	<u>13,125</u>
-	5,215
<u>277</u>	<u>332,632</u>
<u>277</u>	337,847
<u>\$ 277</u>	
	1,233,880
	75,186
	<u>(9,715)</u>
	<u>\$ 1,637,198</u>

**County of San Bernardino Special Districts
County Service Area No. 29 - Lucerne Valley
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2003**

	<u>SPECIAL REVENUE FUNDS</u>		<u>PERMANENT FUND</u>
	<u>Fire (SGF)</u>	<u>General (SGG)</u>	<u>Cemetery (TAD)</u>
REVENUES			
Property taxes	\$ 647,536	\$ 309,864	\$ -
Other taxes	-	46,761	-
State assistance	-	21,190	-
Investment earnings	4,671	(1)	2,146
Service fees	350	355	-
Other	199	6,000	-
Total Revenue	<u>652,756</u>	<u>384,169</u>	<u>2,146</u>
EXPENDITURES			
Salaries and benefits	750,846	213,987	-
Services and supplies	153,952	107,485	-
Capital outlay:			
Structures and improvements	-	-	-
Equipment	7,343	-	-
Debt service:			
Principal	6,647	-	-
Interest	1,067	-	-
Total Expenditures	<u>919,855</u>	<u>321,472</u>	<u>-</u>
Excess of Revenues Over (Under) Expenditures	<u>(267,099)</u>	<u>62,697</u>	<u>2,146</u>
OTHER FINANCING SOURCES (USES)			
Transfer in	244,629	-	-
Transfer out	(6,741)	-	-
Total Other Financing Sources (Uses)	<u>237,888</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	(29,211)	62,697	2,146
Fund Balances - beginning	<u>124,491</u>	<u>105,744</u>	<u>71,703</u>
Fund Balances - ending	<u>\$ 95,280</u>	<u>\$ 168,441</u>	<u>\$ 73,849</u>

The accompanying notes are an integral part of these financial statements.

OTHER GOVERNMENTAL FUNDS	Total Governmental Funds
\$ -	\$ 957,400
-	46,761
-	21,190
10	6,826
-	705
-	6,199
<u>10</u>	<u>1,039,081</u>
-	964,833
-	261,437
8,000	8,000
-	7,343
-	6,647
-	1,067
<u>8,000</u>	<u>1,249,327</u>
<u>(7,990)</u>	<u>(210,246)</u>
8,000	252,629
-	(6,741)
<u>8,000</u>	<u>245,888</u>
10	35,642
<u>267</u>	<u>302,205</u>
<u>\$ 277</u>	<u>\$ 337,847</u>

County of San Bernardino Special Districts
County Service Area No. 29 - Lucerne Valley
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances of Governmental Funds to the
Statement of Activities
For the Year Ended June 30, 2003

Net Change in Fund Balances - Total Governmental Funds	\$	35,642
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlay in the current period.		(32,784)
--	--	----------

The net effect of capital outlay transactions to increase net assets		
Capital grants and contributions		5,212

Some revenues will not be collected for several months after year-end, they are not considered "available" revenue in the governmental funds.

Property tax revenue - current year		75,186
Property tax revenue - prior year		(77,773)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Increase in compensated absences payable		(3,253)
Increase in interest payable		954
Decrease in loan payable		6,647

Change in net assets of governmental activities	\$	9,831
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The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 29 - Lucerne Valley
Statement of Net Assets
Proprietary Fund
June 30, 2003

	ENTERPRISE FUND
	<u>Ambulance</u>
ASSETS	
Cash and cash equivalents	\$ 10,323
Accounts receivable, net	41,920
Interest receivable	<u>214</u>
Total Assets	<u>52,457</u>
LIABILITIES	<u>-</u>
NET ASSETS	
Unrestricted	<u>52,457</u>
Total Net Assets	<u><u>\$ 52,457</u></u>

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 29 - Lucerne Valley
Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Fund
For the Year Ended June 30, 2003

	ENTERPRISE FUND Ambulance
OPERATING REVENUES	
Charges for services	\$ 402,636
Total Operating Revenues	402,636
OPERATING EXPENSES	
Professional services	16,301
Salaries and benefits	12,554
Services and supplies	266,591
Total Operating Expenses	295,446
Operating Income	107,190
NONOPERATING REVENUES (EXPENSES)	
Investment earnings	1,385
Loss on sale of capital assets	(1,350)
Total Nonoperating Revenues (Expenses)	35
Income Before Transfers	107,225
TRANSFERS OUT	(198,507)
Change in Net Assets	(91,282)
Net Assets - beginning	143,739
Net Assets - ending	\$ 52,457

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 29 - Lucerne Valley
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2003

	ENTERPRISE FUND <u>Ambulance</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 434,768
Payments to suppliers	(282,892)
Payments to employees	(12,554)
Net Cash Provided By Operating Activities	<u>139,322</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers out	(198,507)
Net Cash (Used for) Noncapital Financing Activities	<u>(198,507)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment earnings	1,879
Net Cash Provided By Investing Activities	<u>1,879</u>
Net Decrease in Cash and Cash Equivalents	(57,306)
Cash and Cash Equivalents - beginning of the year	<u>67,629</u>
Cash and Cash Equivalents - end of the year	<u><u>\$ 10,323</u></u>
Noncash Investing, Capital and Financing Activities:	
None	
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 107,190
Adjustments to reconcile operating income to net cash provided by operating activities:	
Change in assets and liabilities:	
Decrease in accounts receivable, net	32,132
Net Cash Provided By Operating Activities	<u><u>\$ 139,322</u></u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts
County Service Area No. 29 - Lucerne Valley
Notes to Financial Statements
June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

The County Service Area (CSA) No. 29 was established by an act of the Board of Supervisors of the County of San Bernardino (the County) on July 27, 1987 to provide ambulance transportation services, fire protection, park and recreation services, a cemetery, television translators, and streetlights to the community of Lucerne Valley.

The CSA is a component unit of the County of San Bernardino and is governed by the actions of the County Board of Supervisors.

The accompanying financial statements reflect only the accounts of the County Service Area No. 29 of the County of San Bernardino (County) and are not intended to present the financial position of the County taken as a whole.

Because the CSA meets the reporting entity criteria established by the Governmental Accounting Standards Board (GASB), the CSA's financial statements have also been included in the Comprehensive Annual Financial Report of the County as a "component unit" for the fiscal year ended June 30, 2003.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement activities) report information on all of the nonfiduciary activities of the reporting entity. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Currently, the CSA does not have any fiduciary fund types. Major individual governmental funds are reported as separate columns in the fund financial statements.

County of San Bernardino Special Districts
County Service Area No. 29 - Lucerne Valley
Notes to Financial Statements
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *special revenue fund* labeled "General" is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *special revenue fund* labeled "Fire" provides fire protection to the Community of Lucerne Valley under the administrative direction of the San Bernardino County Fire Department.

The *permanent fund* labeled "Cemetery" provides maintenance and upkeep for cemetery grounds in Lucerne Valley.

The government reports the following major proprietary fund:

The *enterprise fund* labeled "Ambulance" accounts for the activities of the CSA, a blended component unit of the County. The CSA operates the ambulance transportation services under the administration of the County Fire Department.

County of San Bernardino Special Districts
County Service Area No. 29 - Lucerne Valley
Notes to Financial Statements
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the CSA enterprise fund is charges to customers for ambulance transportation services. Operating expenses for enterprise funds include the cost of salaries and benefits, service and supplies, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Deposits and investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

County of San Bernardino Special Districts
County Service Area No. 29 - Lucerne Valley
Notes to Financial Statements
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

All accounts receivable are shown net of an allowance for uncollectibles when applicable. The accounts receivable balance of the Ambulance Enterprise Fund at June 30, 2003 is net of an allowance for doubtful accounts of \$223,641.

Property taxes

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

Inventories and prepaid items

Inventories, if any, are valued at cost using the first-in/first-out method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of two years. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	40 - 60
Structures and improvements	5 - 40
Equipment and vehicles	4 - 15

**County of San Bernardino Special Districts
County Service Area No. 29 - Lucerne Valley
Notes to Financial Statements
June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Employee compensated absences

Accumulated vacation, holiday benefits, sick pay and compensatory time are recorded as an expense and liability as the benefits are earned. Compensated absence liabilities are recorded as a current liability. The CSA is not obligated to pay for unused sick leave if an employee terminates or retires.

Compensated absences activity for the year ended June 30, 2003 was as follows:

<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
<u>\$ 6,462</u>	<u>\$ 9,344</u>	<u>\$ 6,091</u>	<u>\$ 9,715</u>

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reconciliation of government-wide and fund financial statements

Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between *net changes in fund balances - total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this \$(32,784) difference are as follows:

Capital outlay	\$ 15,343
Depreciation expense	<u>(48,127)</u>
Net adjustment to decrease <i>net change in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ (32,784)</u>

**County of San Bernardino Special Districts
County Service Area No. 29 - Lucerne Valley
Notes to Financial Statements
June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Stewardship, compliance and accountability

A. Budgetary information

In accordance with provisions of Section 29000 - 29143 of the Government code of the State of California, commonly known as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for fixed assets within each fund.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the Special District's Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

B. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

NOTE 2: CASH AND DEPOSITS

Cash and Cash Equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and Cash Equivalents are shown at the fair value as of June 30, 2003.

NOTE 3: RECEIVABLES

At June 30, 2003, the receivables were composed of the following:

	General	Fire	Ambulance	Nonmajor and Other Funds	Total
Accounts	\$ -	\$ -	\$ 265,561	\$ -	\$ 265,561
Less: allowance for uncollectibles	-	-	(223,641)	-	(223,641)
Net Total Accounts Receivables	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 41,920</u>	<u>\$ -</u>	<u>\$ 41,920</u>

County of San Bernardino Special Districts
County Service Area No. 29 - Lucerne Valley
Notes to Financial Statements
June 30, 2003

NOTE 4: INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables at June 30, 2003, are as follows:

<u>Fund</u>	<u>Due From</u>	<u>Due To</u>
Fire (SGF)	\$ 975	\$ -
General (SGG)	-	975
Total	<u>\$ 975</u>	<u>\$ 975</u>

NOTE 5: CAPITAL ASSETS

Capital asset activity for year ended June 30, 2003 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 95,507	\$ -	\$ -	\$ 95,507
Construction in progress	75,083	8,000	(79,677)	3,406
Total capital assets, not being depreciated	<u>170,590</u>	<u>8,000</u>	<u>(79,677)</u>	<u>98,913</u>
Capital assets, being depreciated:				
Land improvements	695,557	-	-	695,557
Structures and improvements	903,614	79,677	-	983,291
Vehicles	227,110	-	-	227,110
Equipment	191,627	111,152	-	302,779
Total capital assets, being depreciated	<u>2,017,908</u>	<u>190,829</u>	<u>-</u>	<u>2,208,737</u>
Less accumulated depreciation for:				
Land improvements	(321,398)	(14,731)	-	(336,129)
Structures and improvements	(208,406)	(21,099)	-	(229,505)
Vehicles	(210,607)	(6,008)	-	(216,615)
Equipment	(186,635)	(104,886)	-	(291,521)
Total accumulated depreciation	<u>(927,046)</u>	<u>(146,724) *</u>	<u>-</u>	<u>(1,073,770)</u>
Total capital assets, being depreciated, net	<u>1,090,862</u>	<u>44,105</u>	<u>-</u>	<u>1,134,967</u>
Governmental activities capital assets, net	<u>\$1,261,452</u>	<u>\$ 52,105</u>	<u>\$ (79,677)</u>	<u>\$ 1,233,880</u>

* This amount includes current year depreciation expense of \$48,127 and \$98,597 for accumulated depreciation as of 5/31/03 for equipment with a cost of \$111,152 transferred to the CSA in the current year.

County of San Bernardino Special Districts
County Service Area No. 29 - Lucerne Valley
Notes to Financial Statements
June 30, 2003

NOTE 5: CAPITAL ASSETS (continued)

	Beginning Balance	Additions	Deletions	Ending Balance
Business-type activities:				
Capital assets, being depreciated:				
Vehicles	\$ 140,227	\$ -	\$ -	\$ 140,227
Equipment	6,746	-	(6,746)	-
Total capital assets, being depreciated	146,973	-	(6,746)	140,227
Less accumulated depreciation for:				
Vehicles	(140,227)	-	-	(140,227)
Equipment	(5,396)	-	5,396	-
Total accumulated depreciation	(145,623)	-	5,396	(140,227)
Total capital assets, being depreciated, net	\$ 1,350	\$ -	\$ (1,350)	\$ -

NOTE 6: SPECIAL ACTIVITIES FUND

The CSA operates a revolving fund in accordance with Public Resources Code Section 5784.35. The fund is for the purpose of conducting and supervising special recreational activities. The revenue received and expenses paid are kept in commercial banks. Because the recreational activities are self-funded and are not apart of the CSA's budget, only the cash balance and related equity are reported on the CSA's *Balance Sheet* and *Statement of Net Assets*. Profits earned from special activities are reflected as part of charges for services on the *Statement of Activities* and as service fees on the *Statement of Revenues, Expenditures and Changes in Fund Balance*. The net decrease in cash from June 30, 2002 to June 30, 2003 is \$80.

**County of San Bernardino Special Districts
County Service Area No. 29 - Lucerne Valley
Notes to Financial Statements
June 30, 2003**

NOTE 7: RETIREMENT PLAN

Plan Description

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the "Plan") operating under the California County Employees Retirement Act of 1937 ("1937 Act"). It provides retirement, death, and disability benefits to members. Although legally established as a single employer plan, the City of Big Bear Lake, the City of Chino Hills, the California State Association of Counties, the San Bernardino County Law Library, Crest Forest Fire Protection District, Mojave Desert Air Quality Management District (MDAQMD) and the South Coast Air Quality Management District (the "AQMD"), were later included, along with the County of San Bernardino (the "County"), and are collectively referred to as the "Participating Members". The plan is governed by the San Bernardino Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 W Hospitality Lane - 3rd floor, San Bernardino, California 92415-0014.

Fiduciary Responsibility

The Retirement Association is controlled by its own board, the Retirement Board, which acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. The Retirement Association publishes its own Comprehensive Annual Financial Report and receives a separate independent audit. The Retirement Association is also a legally separate entity from the County and not a component unit. For these reasons, the County's Comprehensive Annual Financial Report excludes the Retirement Association pension trust fund as of June 30, 2003.

Funding Policy

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary bases on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.36% - 13.46% of their annual covered salary of which the County pays approximately 7%. All employers combined are required to contribute 8.90% of the current year covered payroll. For 2003, the County's annual pension cost of \$68,361,000 was equal to the County's required and actual contributions. The CSA paid \$100,887 to the plan as the employer's portion. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Sections 31453 of the 1937 Act.

**County of San Bernardino Special Districts
County Service Area No. 29 - Lucerne Valley
Notes to Financial Statements
June 30, 2003**

NOTE 7: RETIREMENT PLAN (continued)

The following table shows the County's required contributions and percentage contributed, for the current year and two preceding years:

Year Ended June 30,	Annual Pension Cost (in thousands)	Percentage Contributed
2001	58,572	100%
2002	69,245	100%
2003	68,361	100%

The County, along with the AQMD, issued Pension Refunding Bonds (the "Bonds") in November 1995 with an aggregate amount of \$420,527,000. These Bonds were issued to allow the County and the AQMD to refinance each of their unfunded accrued actuarial liabilities with respect to retirement benefits for their respective employees. The Bonds are the obligations of the employers participating in the Plan and the assets of the Plan do not secure the Bonds. The County's portion of the bond issuance was \$386,266,000. The current amount outstanding at June 30, 2003 is \$430,898,000.

NOTE 8: FEDERAL AND STATE GRANTS

From time to time the CSA may receive funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although the CSA expects such amounts, if any, to be immaterial.

NOTE 9: RISK MANAGEMENT

The CSA participates in a Public Entity Risk Pool sponsored by the County of San Bernardino (County). Insurance premiums totaled \$77,891 for the year ended June 30, 2003.

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and workers' compensation claims. Public liability claims are self-insured for up to \$250,000 per occurrence. Excess insurance coverage up to \$30 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II.

Workers' compensation claims are self-insured up to \$1 million per occurrence and covered by an independent carrier for the balance up to \$2 million for employer's liability and for workers' compensation statutory liability. Property damage claims are self-insured on an occurrence basis up to \$25,000 and insured by the CSAC EIA Property Programs I and II.

**County of San Bernardino Special Districts
County Service Area No. 29 - Lucerne Valley
Notes to Financial Statements
June 30, 2003**

NOTE 9: RISK MANAGEMENT (continued)

The County supplements its self-insurance for medical malpractice claims with an insurance policy that provides annual coverage on an occurrence basis with deductibles of \$1,000,000 for each claim and \$5,000,000 for total annual claims. Maximum coverage under the policy is \$20 million per occurrence with an additional \$30 million in limits provided by the CSAC EIA General Liability II Program.

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance and employee dental insurance, which are accounted for in the General Fund. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies and include amounts for claims incurred but not reported and allocated loss adjustment expense. The liabilities for these claims are reported using a discounted rate of 5.00%.

The County has an investment agreement with National Westminster Bank to finance the self-insured general liability, automobile liability, workers' compensation and medical malpractice programs. Quarterly disbursements are received by the County for fund reserves and payment of claims. The County's investment in the agreements totaled \$41,124,812 at June 30, 2003.

The claims liability of \$86,764,373 reported at June 30, 2003 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the claims liability amount in fiscal years 2002 and 2003 were:

Fiscal Year	Beginning of Fiscal Year Liability (in thousands)	Current Year Claims and Changes in Estimates (in thousands)	Claims Payments (in thousands)	End of Fiscal Year Liability (in thousands)
2002 - 2003	\$ 95,288	\$ 23,647	\$ (32,171)	\$ 86,764
2001 - 2002	\$ 61,172	\$ 61,832	\$ (27,716)	\$ 95,288

**County of San Bernardino Special Districts
County Service Area No. 29 - Lucerne Valley
Notes to Financial Statements
June 30, 2003**

NOTE 10: TRANSFERS IN/OUT

Interfund transfers are transactions used to close out a fund, reimburse an operating fund, and transfer cash between operating funds and capital projects funds. At June 30, 2003, the CSA made the following interfund transfers in and out:

	<u>Transfers in:</u>
	<u>Fire</u>
Transfer out:	
Ambulance (EAJ)	<u>\$ 198,507</u>
Total	<u><u>\$ 198,507</u></u>

NOTE 11: CONTINGENCIES

As of June 30, 2003, in the opinion of the CSA Administration, there are no outstanding matters, which would have a significant effect on the financial position of the CSA.

NOTE 12: PROPOSITION 111 APPROPRIATION LIMITS

Proposition 111, which added Article XIIIB to the State Constitution, establishes limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2002-2003 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

Required Supplementary Information
County of San Bernardino Special Districts
County Service Area No. 29 - Lucerne Valley
Budgetary Comparison Schedule - Special Revenue Funds
For the Year Ended June 30, 2003

	Special Revenue Fund			
	Fire (SGF)			
	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
REVENUES				
Property taxes	\$ 699,284	\$ 699,284	\$ 647,536	\$ (51,748)
Other taxes	-	-	-	-
State assistance	-	-	-	-
Investment earnings	2,000	2,000	4,671	2,671
Service fees	-	-	350	350
Other	-	-	199	199
Total Revenues	701,284	701,284	652,756	(48,528)
EXPENDITURES				
Salaries and benefits	783,151	783,151	750,846	32,305
Services and supplies	185,240	185,240	153,952	31,288
Capital outlay:				
Equipment	7,500	7,500	7,343	157
Debt service:				
Principal	8,000	8,000	6,647	1,353
Interest	-	-	1,067	(1,067)
Reserves and contingencies	39,772	39,772	-	39,772
Total Expenditures	1,023,663	1,023,663	919,855	103,808
Excess of Revenues Over (Under) Expenditures	(322,379)	(322,379)	(267,099)	55,280
OTHER FINANCING SOURCES (USES)				
Transfer in	244,629	244,629	244,629	-
Transfer out	(46,741)	(46,741)	(6,741)	40,000
Total Other Financing Sources (Uses)	197,888	197,888	237,888	40,000
Net Change in Fund Balances	\$ (124,491)	\$ (124,491)	(29,211)	\$ 95,280
Fund Balances - beginning			124,491	
Fund Balances - ending			\$ 95,280	

Special Revenue Fund			
General (SGG)			
Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
\$ 299,694	\$ 299,694	\$ 309,864	\$ 10,170
-	-	46,761	46,761
100,000	100,000	21,190	(78,810)
200	200	(1)	(201)
1,000	1,000	355	(645)
6,000	6,000	6,000	-
<u>406,894</u>	<u>406,894</u>	<u>384,169</u>	<u>(22,725)</u>
228,588	228,588	213,987	14,601
108,949	108,949	107,485	1,464
10,000	10,000	-	10,000
-	-	-	-
-	-	-	-
19,110	19,110	-	19,110
<u>366,647</u>	<u>366,647</u>	<u>321,472</u>	<u>45,175</u>
40,247	40,247	62,697	22,450
-	-	-	-
<u>(140,197)</u>	<u>(140,197)</u>	<u>-</u>	<u>140,197</u>
<u>(140,197)</u>	<u>(140,197)</u>	<u>-</u>	<u>140,197</u>
<u>\$ (99,950)</u>	<u>\$ (99,950)</u>	62,697	<u>\$ 162,647</u>
		<u>105,744</u>	
		<u>\$ 168,441</u>	

County of San Bernardino Special Districts
County Service Area No. 29 - Lucerne Valley
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2003

	CAPITAL PROJECTS FUNDS			Total Nonmajor
	Generator (CFZ)	Station Addition (CGI)	Well (CFW)	Governmental Funds (see Exhibit C)
ASSETS				
Cash and cash equivalents	\$ 3	\$ 266	\$ 6	\$ 275
Interest receivable	-	2	-	2
Total Assets	<u>\$ 3</u>	<u>\$ 268</u>	<u>\$ 6</u>	<u>\$ 277</u>
LIABILITIES AND FUND BALANCES				
Liabilities	\$ -	\$ -	\$ -	\$ -
Fund Balances:				
Unreserved:				
Undesignated	<u>3</u>	<u>268</u>	<u>6</u>	<u>277</u>
Total Fund Balances	<u>3</u>	<u>268</u>	<u>6</u>	<u>277</u>
Total Liabilities and Fund Balances	<u>\$ 3</u>	<u>\$ 268</u>	<u>\$ 6</u>	<u>\$ 277</u>

County of San Bernardino Special Districts
County Service Area No. 29 - Lucerne Valley
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
June 30, 2003

	CAPITAL PROJECTS FUNDS			Total Nonmajor Governmental Funds (see Exhibit D)
	Generator (CFZ)	Station Addition (CGI)	Well (CFW)	
REVENUES				
Investment earnings	\$ (1)	\$ 12	\$ (1)	\$ 10
Total Revenues	(1)	12	(1)	10
EXPENDITURES				
Capital outlay				
Structures and improvements	-	8,000	-	8,000
Total Expenditures	-	8,000	-	8,000
Excess of Revenues (Under) Expenditures	(1)	(7,988)	(1)	(7,990)
OTHER FINANCING SOURCES				
Transfers in	-	8,000	-	8,000
Total Other Financing Sources	-	8,000	-	8,000
Net Change in Fund Balances	(1)	12	(1)	10
Fund Balances - beginning	4	256	7	267
Fund Balances - ending	\$ 3	\$ 268	\$ 6	\$ 277

